THE ANSWER KEY

How To Plan, Develop and Finance Your Charter School Facility

NCB Development Corporation

Financing, Developing and Empowering America's Communities

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NCB Development Corporation, an affiliate of National Cooperative Bank, is a national nonprofit organization that empowers underserved communities to address the problems poverty creates in America. NCBDC creates access to capital and provides technical assistance otherwise unavailable for low- and moderate-income communities. NCBDC combines both financial and development services to spark systemic change in delivering affordable facilities for communities including education, housing, health care, assisted living and economic development ventures.

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ABOUT THE ANNIE E. CASEY FOUNDATION

Since 1948, the Annie E. Casey Foundation (AECF) has worked to build better futures for disadvantaged children and their families in the United States. The primary mission of the Foundation is to foster public policies, human service reforms and community supports that more effectively meet the needs of today's vulnerable children and their families. In pursuit of this goal, the Foundation makes grants, funds demonstration projects, provides services, delivers technical assistance and disseminates data and analyses, all aimed at helping states, cities and local neighborhoods do a better, more cost-effective job of supporting children and families.

For the past several years, via its *Making Connections* initiative, the foundation has provided resources and tools to support new and to revitalize existing schools in high poverty communities. At the heart of *Making Connections* is the belief that children succeed when their families are strong, and families get stronger when they live in neighborhoods that help them make connections to three things: economic opportunities, social networks and public supports and services.

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ABOUT THE BILL & MELINDA GATES FOUNDATION

The Bill & Melinda Gates Foundation works to promote greater equity in four areas: global health, education, public libraries, and support for at-risk families in Washington State and Oregon. The Seattle-based foundation joins local, national, and international partners to ensure that advances in these areas reach those who need them most. The foundation is led by Bill Gates's father, William H. Gates Sr., and Patty Stonesifer.

In the area of education, the foundation focuses on:

Increasing U.S. graduation and college readiness rates – the foundation's mission in this area is to help all students graduate from high school ready for college, work, and citizenship – a collaborative effort to improve education at the school, district and state levels;

Research and evaluation – research and evaluation are essential components of the foundation's work in education; and

Scholarship programs – the foundation is dedicated to reducing financial obstacles that prevent many students from fulfilling their potential.

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Introduction

CHAPTER 1

CHARTER SCHOOLS AND THE FACILITIES DEVELOPMENT PROCESS

Charter schools are free public schools that operate independently within the public school system. They provide teachers and staff flexibility in deciding their curriculum, staffing and budgets with the goal of improving student achievement.

Recent studies have shown that charter schools are performing as well as and in some cases better than the broader public school system. In addition, charter schools operating for five years or more score higher than the broader public school system. Eighty-two percent of charter schools currently in operation are start-up schools. A "start-up" charter school is created from scratch by educators, parents and community leaders. The other 18% are conversion schools, a public school converted to a charter school by existing faculty and parents.

There are approximately 3,400 charter schools serving close to one million children across the country. Charter schools are growing at a rapid pace. For the 2004-2005 school year, more than 450 new charter schools opened across 34 states and the District of Columbia. Today, 40 states and the District of Columbia have charter school legislation in place.

Of all the challenges facing charter schools, perhaps none is more daunting than finding a suitable home. In many parts of the country, affordable space is hard to come by. Renovations can be costly and complex to manage. Planning, zoning, and building code regulations can be Byzantine and inflexible. Securing adequate financing can be difficult and confusing.

This manual was written for charter schools faced with the complex task of conceptualizing and implementing a facilities development project. Lacking previous development experience, operators can easily overlook issues critical to the success of the project. For starters, operators often grossly underestimate the time that must be dedicated to successfully bring a facilities project to fruition. Moreover, most charter schools rarely possess the staffing resources necessary to plan, monitor, and complete a construction project.

Financing the facilities project can also be daunting. Predevelopment funds for critical activities such as feasibility and needs assessments or preliminary site and architectural design work are often non-existent or difficult to access. Once these tasks are completed, the charter school is faced with the additional challenges of critically evaluating various funding options for construction and long-term financing. Charter schools have an acute need for access to flexible capital (i.e., affordable rates, longer terms, non-traditional repayment arrangements) to match revenue and cash flow streams.

We created this manual to help charter school operators, like you, navigate the development of a charter school facilities project. This technical guide offers step-by-step assistance in planning,

evaluating, and implementing virtually every aspect of a facilities project. Chapters are organized according to each stage of the development process, from early project concept and feasibility to final construction closeout and occupancy. Tables and charts strategically placed throughout the manual provide a snapshot of many of the major decision points you will encounter along the way, such as selecting development team members, undertaking a capital campaign, understanding the process of financing, and evaluating different project delivery options. A handy glossary of terms at the end of the manual will provide you with the new vocabulary you'll need as you navigate the real estate development process.

Whether you renovate your existing space or construct a new building, the process is likely to be time consuming and expensive, and it will undoubtedly involve the cooperation of multiple parties. Give yourself time, because the real estate development process takes far longer than most people expect. Adequate time is essential because it allows you the luxury of exploring options, negotiating with major third parties (e.g., property owners, lenders, architects), and truly developing the best possible facility within your budgetary constraints.

Though the challenge of developing and financing a top-notch facility looms large for most charter schools, school leaders across the country have met the challenge with extraordinary commitment and unusual creativity. The authors trust that this resource guide will provide charter school developers and operators with a foundation of knowledge upon which they can build yet another charter school success story.

ABOUT NCB DEVELOPMENT CORPORATION

NCB Development Corporation (NCBDC) is a unique non-profit organization blending development skills and resources with disciplined financial lending expertise. It provides creative development and financial solutions that empower underserved communities to address the problems that poverty creates in America. NCBDC's solutions are based on the cooperative principles of self-help, democratic control and open participation. It provides the highest level of professional services, employing high-caliber staff and partnering with like-minded organizations to achieve systemic change in the delivery of goods and services to underserved communities.

NCBDC targets areas that it has the power to transform – education, affordable assisted living, health care, affordable housing, and economic development – providing financial and development services in all five areas. Over the last decade, NCBDC has been very involved in the charter school movement as a facilities lender and technical assistance provider. It has underwritten $60 million in facilities financing to more than 40 charter schools in 11 states and Washington, DC, 80% of which are located in economically distressed neighborhoods. Additionally, NCBDC has created private sector loan pools in excess of $150 million for facilities projects. Through its various loan programs and technical assistance, NCBDC has been directly involved in improving charter school facilities serving more than 27,000 students nationwide. A description of some of NCBDC's work to date in the charter school industry follows.

Charter School Capital Access Program

In 1999, NCB Development Corporation and The Reinvestment Fund (Philadelphia, PA) received a $6.4 million demonstration grant from the US Department of Education (DOE) and leveraged a combination of public and private dollars to turn that initial investment into a $45 million loan pool for charter school facilities. NCBDC, The Reinvestment Fund, and a third partner,

Foundations, Inc. (Morristown, NJ) provide a combination of technical assistance and loans to charter schools. Loans may be used for: acquisition, renovation, newly built facilities, and leasehold improvements. Eligible borrowers include charter schools and other non-profit and for-profit organizations that will use loan funds to finance facilities for use as a charter school. Loan Size: $500,000 - $4,000,000. Potential borrowers must be located in Delaware, New Jersey, New York, Pennsylvania, Virginia or the District of Columbia.

New Markets Tax Credits (NMTC)

In 2003, NCBDC received a $75 million allocation of New Markets Tax Credits and will use its allocation for charter schools and health care organizations nationally. Beneficiaries must be located in census tracts where poverty rates exceed 20% or median income is below 80% of the area median income.

Technical Assistance Project for Charter School Facilities

In 1999, with a grant from the United States Department of Education, NCBDC and the (former) Charter Friends National Network launched the Technical Assistance Project for Charter School Facilities. During the three-year program, the project provided high quality technical assistance, via local resource specialists, to charter schools located in Florida, Georgia, Minnesota and Wisconsin. Additionally, the project increased the quality and quantity of facilities-related training provided to charter school operators nationwide and laid the groundwork for the scale-up of successful technical assistance strategies across the country. An evaluation of the Technical Assistance Project is available on NCBDC's website.

California Charter School Facilities Program (CSFP)

Approved by voters in 2002, the CSFP is a pilot program that allows the California School Facility Authority to provide school facilities funding for charter schools. As financial advisor to the CSFP, NCBDC provides financial review, analysis and advice on CSFP operations. California charter schools interested in the CSFP or other programs available through the CSFA for new facility projects can find more information at: www.treasurer.ca.gov/csfa.

The Charter Coalition (TCC)

NCBDC is a member of TCC, a consortium of mission driven, community development practitioners who are currently providing financial and development services to charter schools in low-income communities. The purpose of TCC is to leverage the collective expertise and resources of its members to increase the availability of financing and technical assistance to charter schools. Visit The Charter Coalition's website at www.thechartercoalition.org.

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Groundbreaking at Tree of Life Public Charter School in Washington, D.C.

THE CHARTER SCHOOL FACILITY DEVELOPMENT PROCESS:

An Overview

CHAPTER 2

Typically, a charter school's governing board oversees the facility development process, either as a group, or via the formation of a board-appointed facility (or building) committee.

The development process begins with the conceptualization of your facility and ends when you take occupancy of the new (or renovated) facility. In general, the development process can be broken down into four distinct phases: (1) concept, (2) predevelopment, (3) design and pre- construction, and (4) construction. While financing is not technically a phase, the ability to finance your charter school is crucial to your success. The amount of time spent in any one of these stages varies based on the size and complexity of your project.

A brief discussion of each phase follows. Subsequent sections of this guide are designed to provide in-depth information and resources to help your school navigate its way through each phase of the facility development process.

PHASE 1: CONCEPT

Prior to making any major decisions about a facility, it is important to educate yourself about and to test the feasibility of the facility options available to you and to choose a fiscally sound route that reflects the mission and goals of your school and the community it serves. The charter school board may wish to manage this process internally or hire a consultant to lead the school through the concept phase, including the completion of some or all of the following activities:

- Learn the local rules and regulations related to planning, zoning, and building code as they relate to schools;
- Estimate your space needs in a new or renovated facility;
- Test the feasibility of a new site or a site change;
- Consider your facility options (e.g., renovating existing structure, acquiring new site, building a new facility) and decide on a desired route for your project;
- Develop a viable project concept; and
- Explore various financing options as they relate to both buying and leasing.

The tangible outcomes of this phase are:

1. Project concept and direction;
2. Needs assessment, including a preliminary determination of space requirements;
3. Business plan; and
4. Preliminary project budget.

PHASE 2: PREDEVELOPMENT

The predevelopment phase is one of intense planning and decision-making that ultimately positions the charter school to begin actual project development. Two integral parts of predevelopment are assembling a development team and site selection. Finding the right site can be a long and tedious process. However, at the end of this stage, your team should be in a position to finalize a project plan and begin designing your new (or renovated) facility. Given the importance of making the right facility decision for your school, it is critical to devote adequate time and resources to both assembling the team and site selection.

Critical activities to complete during this phase are:

- Appoint an internal person to manage the development process (e.g., board member, school director);
- Select the project development team,
- Define characteristics, roles and responsibilities of the project development team;
- Establish criteria for site evaluation (e.g., location, size, condition, land, restrictions, costs, timing, political issues);
- Assemble a site selection team (with representation from the project development team);
- Evaluate potential sites;
- Review project concept with key constituencies to determine feasibility of project, compliance with local regulations (e.g., third-party entities who approve all or parts of the project, potential funding sources, and other stakeholders);
- Finalize project concept and direction based on final choice of site (e.g., obtain preliminary site control); and
- Develop a preliminary project budget.

Specific outcomes of this phase might include:

1. Contracts for selected members of the project development team (e.g., architect, project manager, attorney);
2. Informal financing commitments/letters of interest;
3. Preliminary project budget; and
4. Selection of a site and preliminary site control (either by letter of intent, **purchase agreement** or option to purchase).

PHASE 3: DESIGN & PRE-CONSTRUCTION

The design and pre-construction phase may be the most exciting phase of the project since it is during this stage that your development team turns the project's vision into a tangible design. Depending on the project's scope and complexity, the design process may be quite lengthy. Regardless, during this phase, you and your design team will consider, and ultimately finalize, various design alternatives and building features. Once the design is finalized, you must complete a number of important steps for the construction phase to begin. Specific activities during the design and pre-construction phase include:

- Finalizing the space assessment;
- Maintaining communication between the owner (charter school) and the design team;
- Translating the project's concepts into rough drawings during the pre-schematic design phase, preliminary building plans with elevations and sections during the schematic design phase, and detailed architectural drawings and final decisions on materials during final design development;
- Finalizing the construction documents to be used to solicit bids and/or estimates from potential contractors;
- Completing the project budget;
- Securing project financing;
- Exercising site control (i.e., by executing a lease or purchasing property); and
- Obtaining necessary third-party approvals (planning, zoning, etc.).

Upon completion of the design and pre-construction phase, your team should have in hand:

1. A complete set of construction documents (including final drawings, construction specifications, and bidding requirements);
2. A form of the General Contractor's contract (including general conditions and contract modification forms, i.e., change orders and the form of lien waivers to be used);
3. Site control evidenced by an executed sales contract, a signed lease, a deposit or some other legally binding agreement;
4. A firm commitment for permanent financing and a closed construction loan (if appropriate); and
5. All necessary third party approvals required by your local jurisdiction to begin construction.

PHASE 4: CONSTRUCTION

This is the final phase of the development process. When complete, you'll have your new (or improved) charter school! The construction phase begins with the selection of a general contractor and the process of bidding the work. It is completed when the building is finished and a certificate of occupancy is issued. During this phase, you should expect the following activities to occur:

- Selecting a contractor;
- Negotiating the contract for construction;
- Closing on financing;
- Initiating construction;
- Managing the construction process;
- Maintaining ongoing dialogue with contractors to ensure timely completion of tasks (including final "punch list" items);
- Negotiating the certificate of substantial completion;
- Obtaining the certificate of occupancy;
- Coordinating telephone, computer, internet and other communications installations; and
- Moving in.

FINANCING

Financing is not technically a "phase" of the development process, yet its successful conclusion is critical to the ultimate success of your project. Preparation for financing begins with the project budget and may involve fundraising and debt capital. While there are some national sources of capital, many financing programs are state based. Prior to breaking ground on your facility, several important activities related to financing include:

- Finalizing your project budget;
- Weighing your financing options;
- Securing a lender and providing necessary documentation for the loan process; and
- obtaining financing for the project.

Finally, it is important to understand that, regardless of its complexity, your project will be affected by a myriad of factors throughout all phases of the project:

- **Cost -** In general, cost is usually the single greatest factor influencing the design and development of your project. Even under the best of circumstances, there are always cost limits to every project. Once these limitations are defined, cost considerations will invariably shape every aspect of the final product, including design, quality, quantity and type of materials, and building size and configuration.

- **Schedule -** The project's schedule may influence certain decisions during the development process. For example, you may decide to eliminate a design alternative because it will require a lengthy public hearing from the local planning board. Or you may choose to use a specific material for the building's exterior because the supplier has promised a prompt delivery date.

- **Codes and Regulations -** Third parties that provide **building permits**, special zoning variances and other regulatory approvals will have a great influence on the building's design. As detailed in later sections, obtaining third party approvals is a critical piece to your project's successful completion.

- **Site -** The site that you select will mandate numerous considerations, including accessibility to nearby services, topography, size, configuration, water, sewage, and drainage issues.

- **Building Technology -** The building's shape and size, construction materials, and major systems (e.g., electrical, heating, plumbing, mechanical) are major decision variables that will affect design and cost considerations. As discussed in various sections throughout this manual, these important variables often involve trade-offs and compromises that must be considered.

- **Sustainability -** This is a relatively new concept that, in its broadest sense, refers to the ability of a society, ecosystem or other ongoing system to continue to function into the indefinite future, without being forced into decline due to obsolescence or overloading of key resources upon which the system depends. With regard to construction projects, sustainability typically refers to building designs that have low environmental impact (sometimes called "green architecture") and enhance the well-being, productivity and quality of life for the communities in which they are located.

- **Context and Climate -** Contextual factors relate to the nature of the surrounding area in which the building will be located (e.g., rural countryside, urban inner city, etc.). These factors will greatly affect the building's design and the type of materials used in construction. Climate factors such as the nature of regional microclimates, temperature, wind, rain, snowfall, and humidity must also be considered in the building's design and construction. Projects in certain areas of the country must address seismic (earthquake) and hurricane considerations as well.

Additionally, all important decisions about your facility, including each of the factors listed here, must be seriously considered in the context of your charter school's mission, vision, and unique set of program offerings.

Concept Phase

CHAPTER 3

During the concept phase, your school is charged with the task of exploring its options, assessing its needs, and formulating a plan for moving forward with a facility project. By the end of this phase, you should have the appropriate resources in hand to allow your team to define and implement its project concept in a professional manner.

Successful navigation through the concept phase involves tackling the following interrelated and often concurrent tasks:

1. **Business Plan**—write a business plan for internal use and to circulate to potential funders and other key constituents;
2. **Feasibility Study**—assess the feasibility of leasing, purchasing, constructing or renovating a new facility;
3. **Needs Assessment**—develop an estimate of your school's overall space needs, including your project's total square footage, to be used to inform the site selection phase; and
4. **Preliminary Budget**—estimate the sources of capital needed and anticipated expenditures for your facility project.

BUSINESS PLAN

Charter school operators are entrepreneurs, and when embarking on a new venture, entrepreneurs prepare written plans to communicate their vision and define a strategy for realizing that vision. A business plan is a road map for everyone to follow. Producing, circulating and seeking feedback on the business plan is an effective way to unify the school's key constituents (board, staff, funders, parents, etc.) around a common vision and to communicate with external entities about the school. While an outside consultant may prepare the business plan, it should be prepared in concert with those who will be charged with its execution. The principal and board president should be heavily involved. Input should be gathered from multiple stakeholders, including parents, staff, chartering authorities, and potential investors.

What is the difference between the business plan and the charter application?

Unless your chartering authority specifically requires a business plan as part of the application process, your application itself is not the equivalent of a business plan. While parts of the charter application can be used in the business plan, the plan itself should be a separate document. This is particularly important since some elements of your school may have changed since you first received your charter. The business plan should focus on all aspects of your program including the curriculum. The business plan is a tool for you to plan out the nuts and bolts of operating your school. Use your plan to go beyond the charter application and work out the everyday mechanics of running a school, including your goals as a school community as you move forward.

What if I already have a business plan?

If you already have a business plan, it will be important to revisit that plan to determine whether or not it needs to be updated. For example, a five-year old school that wrote a business plan three years ago will most likely want to update its business plan, especially if it is embarking on a facility project. The business plan is not a static document. It needs to be updated regularly in order to reflect growth and changes within the school and within the community.

How does facilities planning fit in the business plan?

The business plan can be used to inform the selection of the best available facility and help the school anticipate the ramifications its physical space will have on its operations. Most importantly, a well-crafted business plan will help you understand how much you can afford to spend on your facility in light of your other spending priorities. It will highlight the tradeoffs you will face if you end up spending more than you would like on capital costs. It is an invaluable tool to attract potential funding support. A well-written comprehensive business plan will anticipate potential questions investors may pose and will go a long way towards reassuring such funders that the school is a business-savvy organization that can successfully complete its facility project.

IMPORTANCE OF PLANNING

The importance of short- and long-term facility planning cannot be overemphasized. Many operators rush to open facilities, often creating significant financial and management burdens in the process. You don't have to open your school in a state-of-the-art facility on day one. Consider the full range of options available. Many schools have found that occupying a less-than-optimal (i.e., cheaper) facility for the first year or more allows the school's operations to stabilize and the school's financial assets to accrue – allowing the school to develop a better facility at a later date.

Short-Term Facility Plan – Although schools may be able to open in a permanent location, it is important to anticipate short-term solutions to facility needs. This can provide a contingency plan if a permanent space is delayed, or buy the school some time before making a commitment to a permanent space. Short-term needs may be addressed for the first few weeks or months of school, or for as long as the first several years.

Long-Term Facility Plan – Operators should work out their long-term vision for the school and what types of facilities will be needed to meet them. Long-term facility plans should incorporate projected expansions in enrollment or programs. They should also include the financial impact of a facility, a plan for disposing of the facility if it becomes obsolete or if the school loses its charter, and ongoing maintenance or property management issues.

KEY ELEMENTS OF A BUSINESS PLAN

A. EXECUTIVE SUMMARY

B. THE SCHOOL

1. Background/History of School
2. Mission Statement
3. Instructional Focus and Goals

C. GOVERNANCE, MANAGEMENT, AND OPERATIONS

1. Board of Directors, Experience and Responsibilities
2. Management Plan
3. Operations Plan

D. MARKET ANALYSIS

1. Market Context
2. Market Trends
3. Competitive Advantage

E. FACILITIES PLAN

1. Project Description
2. Development Team
3. Preliminary Capital Budget
4. Anticipated Timeline
5. Contingency Plan

F. FINANCIAL PLAN

1. Operating Budget
2. Balance Sheet
3. Cash Flow Proforma

G. APPENDICES

DESCRIPTION OF THE KEY ELEMENTS OF A CHARTER SCHOOL BUSINESS PLAN

A. Executive Summary

An executive summary is a one– or two -page overview of the business plan. It may be helpful to prepare this section after completing the remainder of the plan.

B. The School

The first part of this section should provide a brief history of the birth and evolution of your school (e.g., when the school started, who was involved, legal status, important milestones to bring the reader up-to-date).

Next, you will want to provide the school's mission statement and briefly describe what it is that sets your school apart from others (more about your school's competitive advantage will be covered in the Market Analysis section below).

Finally, you will want to describe your school's educational program and discuss any other features that are central to your school's operations (e.g., extended school day, type of curriculum used, instructional methods employed, etc.). This is where you will also want to summarize your school's educational performance (e.g., test scores and other measures to assess student performance).

C. Governance, Management and Operations

- **Governance:** Describe the school's governance structure. Who is on the Board of Directors (affiliations, experience, years on board, when their terms expire) and what are the primary responsibilities of the Board of Directors (versus those of the school administrator)? For example, who has the authority to enter into contracts, take on debt, hire and fire staff? This section should refer to the school's Articles of Incorporation and Bylaws (which should also

be attached to the business plan). In addition to the Board of Directors, is there an advisory board, and if so, who is on that board and what is its role in the school? Will the board receive any training on effective management?

- **Management Plan:** This section should lay out the reporting structure of the school, the process used in the selection of staff and the standards used to review performance. An organizational chart should be included showing the lines of authority for the staff and board. The management plan will summarize how the school will be managed day-to-day. What are the responsibilities of the principal, the key administrators and staff? Is there a business manager; what are his/her responsibilities? If parents are to play an important role in the management of the school, describe how they will be involved.

  If the principal and other key staff (e.g., business manager, assistant principal, dean, etc.) are already on board, describe their qualifications and their primary responsibilities, how long have they been employed at your school, and their backgrounds. If the principal or other key staff have not yet been hired, the business plan should include the plan for recruiting administrators, job descriptions and an estimated timeline for interviewing and negotiation periods. If a search firm is to be used, those arrangements should be summarized.

  If the school has contracted or plans to contract out major components of school management, this section should explain those contracts and the qualifications of the contractors.

  This section should also include a discussion of financial management issues. Who will oversee this area? What policies will be followed? Who will record entries in a general ledger? How will invoices be tracked and bills paid? Who will oversee petty cash? What checks and balances will be put in place to prevent fraud and other forms of mismanagement that can lead to charter revocation?

  The business plan should also outline policies around staff performance standards and reviews. There should be a system for evaluation individuals, giving feedback and justifying salary increases or terminations. Staff training opportunities should be described especially as they pertain to improving accountability goals and standards.

  If your state requires the school to have a certain percentage of certified teachers, you need to outline your plan for attracting these individuals. Since retention of qualified teachers is critical to a charter school's success, you need to describe the benefits and other incentives you will set in place to mitigate the effects of rapid turnover.

Operations Plan: Day-to-day operations should be described in this section. At a minimum, the business plan should address the following items:

Logistics: What is the basic school schedule? When will students arrive? What will be the flow of traffic during the transition between classes (i.e., will students rotate or will teachers rotate?) How, where, and when will lunch, gym and library activities be held? When will classes be dismissed? Will there be after-school activities? What holidays will be observed? How will students travel to and from school? Is your school responsible for transporting students? What are alternative options if the most desirable plan does not work?

Administration: Who staffs the front office (e.g., answers phone inquiries, receives visitors, tracks attendance, files necessary reports to regulatory authorities)?

Physical Plant: What is the plan for managing the facility? If a facility has not been selected, then plan for this in a general way until your facility has been selected. Who will perform repairs and maintenance? Who will install furniture and equipment? Who will provide janitorial services?

Security: How will safety and security issues be addressed? Who will be responsible for these issues?

Technology: Who is responsible for information management and computer and technology repairs and installation? Include where the responsibility lies for resolution of problems. Is money budgeted for acquisition, upgrades, and repairs of these computers?

D. Market Analysis

The primary reason for the formation of a charter school is to better serve the needs of public school students and their families. In order to receive a charter, operators have to analyze the market for students and develop an educational program that is unique in some way. This is precisely what entrepreneurs do when starting a business.

- **Market Context:** Describe the education landscape in your community. How many schools exist (public and private)? How many school-age students? What are the demographics of those students (census data)? What is the percentage of students attending public, private, and/or charter schools?
- **Market Trends:** Do data exist that point to trends/shifts within the community (e.g., more parents sending their children to private school or exercising public school choice, increase in charter applications, return to neighborhood schools, increase in enrollment due to new homes being built, school overcrowding, etc.)? Is your community reaching saturation or are public school seats desperately needed?
- **Competitive Advantage:** What sets your school apart from others in the community? Does your school have a waiting list? If your school is new, how many students does your school need to attract in order to make the school feasible? Why will the students come to your school over another school? What are the characteristics of your school versus those of other local public schools (e.g., curriculum, number of students, characteristics of students, size of school, teacher-student ratio, test scores, safety, accessibility)?
- **Marketing Plans:** Include any marketing plans for reaching out to potential students and parents. This might include community meetings, radio/TV appearances or commercials, newspaper articles, or information (written and face-to-face) disseminated throughout the community (e.g., laundromats, churches, preschools, coffee shops, libraries, community centers). Discuss how your school will select students (e.g., lottery).

E. Facilities Plan

This is a "chicken and egg" dilemma for some operators. If no facility is identified when the business plan is being prepared, it can be difficult to complete this section. On the other hand, the business plan can be used to help the operator think through the facility needs of the school. Nonetheless, it is important to include as much information as possible about your "envisioned" or "actual" facility plan. At a later date and once a site has been selected, the business plan can be updated to include facility plans.

- **Project Description:** The project description should recap the results of your school's feasibility study and needs assessment (see sections below for more information on these topics) and it should describe how you plan to move forward with site selection (project concept and plan). Whether or not a site has been selected, the school should detail short- and long-term facility needs in the business plan. This will serve as an important reference when reviewing facility needs at a later date. [See box on the importance of planning on page 10.]

- **Site Description**: Once a site, or sites (if the short-term site differs from the long-term site), has been chosen, the business plan should be revised to reflect the specifics of the facility. The site description section should detail the size, location and condition of the facility. A budget enumerating the costs involved in acquiring the facility and renovating it should be included. If additional funds are needed to secure the site, lenders or charitable funders will want to see a business plan and this section in particular.

- **Development Team:** Who internally is managing the facility process (e.g., board members, principal, others)? Who do you plan to recruit for your facility team (e.g., architect, project manager, general contractor, etc.)? Provide information about background and experiences of those currently involved, and criteria for choosing those you plan to recruit.

- **Preliminary Capital Budget:** Discuss your financial situation in regards to your facility project. How much money does your school have to commit to the project and how much will it need to raise from private sources and/or finance? Develop a preliminary budget for facility acquisition and any construction or renovation of this project. A further discussion of the preliminary budget follows later in this section.

- **Anticipated Timeline:** Estimate the amount of time that it will take to complete your facility project. When do you expect to begin (looking, building) and when do you expect to take occupancy?

- **Contingency Plan:** The business plan must contain alternatives in case a proposed site becomes unavailable. Unfortunately, the most common facility problem for charter schools is the unpredictability of the real estate market. Too many charter schools have been plagued by facilities becoming unavailable at the last minute. If you prepare a business plan for only one reason, it should be to have a contingency plan in place for this dilemma.

F. Financial Plan

This section should include information on the financial health of the organization and projections about future performance. The following should be prepared by the business manager or accountant:

- **Operating Budget:** This spreadsheet should show the annual revenues and expenses of the school and any resulting surplus or deficit. If estimates are used for any items, the assumptions used should be clearly noted. Projections of budget for future years should also be included.

  Once a school is operational, the finance staff should prepare a regular statement of activities, or income statement, that shows the revenues received and expenses incurred in a particular period. Schools may be required to produce these statements monthly or quarterly. They provide one of the most important sources of information on the financial condition of the organization. If your school is operational and has conducted an audit recently, include that in the appendix of your business plan, along with your year-end and year-to-date financial statements. See Appendix A for an operating budget template.

- **Balance Sheet:** Include a balance sheet, if your school has been operational long enough to have such information. The balance sheet provides a snapshot of the organization's assets and liabilities at a specific point in time. This is also a very useful tool for understanding the financial condition of a school and should be included in the business plan. See Appendix B for a balance sheet template.

- **Capital Budget:** This budget is for the one-time costs of acquiring and/or renovating the facility to be used. This budget should be separate from the operating budget.

- **Cash Flow Proforma:** A cash flow proforma shows the receipts (income) and disbursements of cash (expenses) for the organization. It usually covers the organization's fiscal year and is broken down by month. This report is important because the timing of funds received may or may not coincide with the time funds are needed. Therefore, a charter school may have an operating surplus (revenues exceed expenses) but a cash flow deficit (not enough cash to cover expenses), perhaps due to the timing of the receipt of student allotments from the district or state. This is an important management tool to use as well as something your auditor, lender or funder will need to understand. See Appendix C for a cash flow proforma template.

G. Appendices:

The business plan should include an appendix with relevant documents, such as the following:

- Charter contract or application
- Articles of incorporation
- Corporate by-laws
- Curriculum summary
- Class schedule
- List of the members of the Board of Directors and their affiliations
- Resumes of key staff
- Other financial information

FEASIBILITY STUDY

Overcrowded classrooms. Growing student enrollment. Insufficient space for physical education, whole school events, or enrichment activities. Outdated equipment. Inadequate storage. In many cases, charter schools start out in inadequate facilities that become increasingly uncomfortable as the school matures. However, until a charter school has proven itself as a viable entity, academically and operationally, it is unlikely that it will be in a position to build or renovate a facility. New charter school operators reading this guide will want to skip this feasibility study section for now and go to the next section on Needs Assessment. A feasibility study is really most applicable to schools looking to expand or relocate. This period of gathering information and answering questions can help a charter school decide whether it is feasible to move forward with a facility change at this time. Questions to consider may include:

- What factors are critical in a new facility?
- What is your ideal vision for a long-term facility? What would you settle for in the short-term?
- Where do you want to locate your school?
- Does the charter school need more space? Is the current space configured properly for the school's operations? Or is it some combination of the two?
- What types of services might be offered in a new or expanded facility?
- What is the projected growth rate (in staffing and students) over the next three to five years?
- Does it make sense to consider renovating the current facility? If so, could the school operate within the facility while it is under construction or would it need to find a temporary home until construction is complete?
- What local regulations and building/planning codes would the school need to be aware of and meet in order to build or renovate a facility?
- How would the school pay for the project?

REVENUE STREAM & FINANCIAL STABILITY

It is important for your school to assess its financial stability before embarking on a major facility expansion. The last thing you want is for your school to get in over its head and risk losing its charter due to financial instability. The following is adapted from worksheets developed by the Illinois Facilities Fund (IFF). To review the IFF's technical assistance worksheets in their entirety, visit their web site: www.iff.org/resources/content/1/2/documents/tech_sheets.pdf

1. What types of long-term revenues has your school secured that can help it cover long-term debt payments?
2. Is your school running large deficits or surpluses at the end of each year?
3. Does your school find itself dipping into savings or reserves regularly?
4. Can your school meet most operational expenses on a regular basis?
5. Do you have a source of cash, line of credit or cash reserves to meet timing and cash flow issues?

Your charter school may not be able to completely answer each and every question raised during the feasibility study. However, this is the time to explore various options and make a decision about whether or not to move forward.

If funding permits, you may consider hiring a consultant to lead the feasibility study. Regardless of the route you choose, the charter school board should be involved in all aspects of the process. One major activity is to conduct a series of informal discussions with the school's stakeholders (teachers, parents, students, board) to solicit their ideas, desires, and expectations about a potential project. A consultant can be particularly useful in this type of work because s/he does not hold strong convictions about the final outcome of the feasibility process. Such impartiality keeps all parties

more focused on practical and rational issues, and less focused on the emotionally charged aspects of a potential site change.

NEEDS ASSESSMENT

Often, a charter school's stakeholders (parents, teachers, students, board) agree on the need for a facility, but not on how much space is needed or how the space should be used. A needs assessment provides a preliminary estimate of the school's facility needs, including a reasonably good estimate of how much space (usable, net square feet) will be required. If possible, hire an experienced project manager or owner's representative to assist with the analysis of the school's needs and to later help with the site selection.

During the needs assessment process, it is a good idea to take time out to visit other charter schools. How are their programs integrated, from the perspective of the facility's space and design? What are some of the best design features? How did they find and fund their facility? By conducting site visits, your team can elicit creative ideas about what you like and don't like and begin to formulate a "wish list" of designs features for your project. However, it is important to recognize that charter schools throughout the country have been surprisingly creative in the facilities they find to meet their needs. Completion of the needs assessment requires understanding and assessing your program needs, while also maintaining a realistic and open mind.

NEEDS ASSESSMENT WORKSHEET

When determining your school's space needs, it is generally best to start with a broad estimate of your overall needs and then look closely at the specific requirements for your facility, given your mission, educational program, and other important factors. The Needs Assessment Worksheet provided in Appendix D can be used to help your school assess both its gross and specific space needs.

DETERMINE SPACE NEEDS

Multiple approaches can be used to calculate the square footage needed for your facility. Your school will want to figure out a minimum and maximum range of space needed to allow for flexibility when selecting a site. The Needs Assessment Worksheet can help you analyze your school's needs. In general, your team will want to consider the following items when determining your needs:

1. Gross Square Footage

A ballpark estimate of gross square footage can be done first. The purpose of this ballpark figure is to guide your site selection—developing a general idea of the minimum and maximum square footage of potential sites. You can begin to estimate gross square footage by multiplying the number of students by 60 to 120 square feet or by adding up the number of classrooms needed and multiplying by 750 to 1,000 square feet per classroom (assuming a class size of 25 students). Add to this number an estimate of office storage and other non-academic space (most schools use 40-55 percent of the square footage for non-academic uses). Note: These are rough guidelines. Your jurisdiction may require a certain square footage per student. Requirements may also vary depending on the grade level.

More important to your ultimate plans is assessing your total internal and external square footage. Internal space includes classrooms, special purpose rooms, gym, cafeteria, library, etc. External needs include parking, traffic flow, and outside play areas. It is very important to look at local requirements regarding parking, environmental impact, and other areas when assessing your facility needs.

2. Bathrooms and Common Areas

Consider lavatory needs for students and staff. Estimates of square footage should be included in the calculation of gross square footage. The Needs Assessment Worksheet estimates about 30% of your facilities space should be dedicated for bathrooms and other areas, like hallways. Consult Americans with Disabilities (ADA) regulations as well as local codes, but at a minimum plan on at least one bathroom **fixture** for every 30 students, and one bathroom for every eight to ten staff members.

3. Non-academic Space

Consider the school's needs for a gym, cafeteria, and library (could be combined in a multi-use room). Large spaces like gyms and cafeterias can be very expensive. Some schools save on this cost by incorporating multi-purpose rooms into their plans—areas that can be used as gyms, cafeterias, for assemblies, or other purposes.

4. Expansion Plans

Incorporate planned growth in enrollment into space needs.

5. Playground

Estimate what type of outdoor play areas are needed. Leave open the option of using nearby parks, recreation centers, etc.

6. Parking

Consider how many parking spaces will be needed for staff, students, and visitors. This will vary depending on access to public transportation, but a rough guideline for an elementary school would be one space per staff member, plus one for every 50 students (for visitors). Also check ADA guidelines for the required number of handicap spaces.

7. Other Needs

It is important to consider other less tangible issues when identifying your charter school's facility needs. This list is not exhaustive or applicable in every situation.

- **Geographic focus:** identify preferred areas to locate.
- **Accessibility:** determine accessibility for school buses, public transportation, parking, and parental drop-off as well as for persons with disabilities.
- **Proximity to related entities:** seek locations near affiliated entities (e.g., cultural or educational institutions).
- **Curriculum-specific needs:** consider special needs related to the school's theme or mission (e.g., drafting areas for an architectural school, labs for a science school).
- **Technology needs:** weigh the need for a computer lab and for wiring the school properly for technology use.

IDENTIFY CONSTRAINTS

As important as it is to develop a realistic and comprehensive assessment of your needs, it is also necessary to plan for potential constraints on the facility development process. Better to be realistic up-front about potential constraints than to be surprised at the last minute and risk larger problems (e.g., not being able to open school, receipt of financing). Additionally, if you plan to

approach a lender for financing, they will ask you to provide the following type of information. If you have already written your business plan, much of this information will be in the plan.

- **Time:** Find out the deadlines for opening the school, as well as milestones you must reach (such as obtaining a certificate of occupancy) in the interim. Working backwards, estimate how long it will take to open the school: orienting teachers, decorating classrooms, receiving furniture and equipment, finishing cosmetic repairs, completing major construction projects, if necessary, obtaining building permits, obtaining zoning variances, preparing architectural drawings, getting site control, securing financing, and locating an appropriate site. Leave ample time for each step. A project manager can help you estimate how long design and construction work will take.

- **Money:** Identify how much money you have available for the facility and how much you will need to raise or borrow (for up-front and ongoing costs). If you are eligible for start-up funds, are there restrictions on their use? How much can be comfortably set aside for facility expenses without impairing cash flow for school operations? Carefully review your budget with your accountant or business manager and determine how much is available for facility expenses. Depending on school location, charter schools typically use 10-25% of their operating dollars to pay for facilities (rent or mortgage payments plus utilities). Schools that spend more than 25% on facilities often find they sacrifice important elements of quality educational programs.

Explore other sources of funds. Talk to foundations, politicians, and lenders. It is critical to know what sources of funds are available before entering the site selection phase. There may be more or fewer resources available than you expect.

- **Rules and Regulations:** Find out the compliance issues for your local jurisdiction (e.g., building codes, zoning restrictions, ADA requirements). Sources of information on local rules and regulations include: your project manager, other charter operators, charter school associations/resource centers, architects, and non-profit developers. It's important to note that local officials may interpret zoning rules and building codes differently. As such, you may get different answers to the same question about zoning and codes. Many times, the final answer may not be available until you go through an inspection or zoning hearing. However, it is important to be aware of the types of concerns that may arise. For instance, if building codes require outside air in every classroom, this may impact the selection of a facility with classrooms that have no windows. You would need to understand the costs involved in remedying this situation, such as installing air vents.

NEED FOR PROFESSIONAL ASSISTANCE

The facility development process involves a great deal of technical expertise. Unless your charter school staff or board has the expertise, it can be beneficial to contract with knowledgeable professionals to guide you through various aspects of the process. Be aware that using volunteers can be an excellent way to obtain certain services;

however, it can also be problematic (e.g., lack of commitment or time availability).

An in-depth discussion about the key members of the facility development team follows in Chapter 4 on Predevelopment. However, it is important to note here that an architect and a project manager are two professionals who can be especially helpful during the needs assessment stage. The project manager can help the school through various stages of the process and should have an understanding of the real estate market and construction trades. The architect can review the feasibility study and needs assessment and help the school to develop a preliminary space program—a comprehensive listing of every room and/or space in the desired facility and its estimated square footage.

PRELIMINARY CAPITAL BUDGET

A preliminary capital budget is typically broken into two parts. The "sources" section lists all the sources of capital that the charter school will use to pay for its project. Typical "sources" include cash on hand, funds raised from individual donors or corporations, foundation or government grants, and borrowed money. The "uses" section lists the items on which the money will be spent, such as architect and engineering fees, needs assessments, permits, environmental studies, construction costs (or leasehold improvements) and furniture, fixtures, and equipment. The "uses" section is further divided into "hard" and "soft" costs, as described in depth below. A capital budget template is included as Appendix E, and a sample construction budget, or schedule of values, is provided in Appendix H.

Initially, your preliminary budget may have only two cost categories: "hard" and "soft" costs. "Hard" costs cover construction and/or improvements to the property, including equipment and fixtures. "Soft" costs relate to items such as architectural fees, permits, feasibility studies and other professional and consulting fees, and financing costs, much of which is expended during the design phase. As you put together the preliminary budget, these hard and soft costs will be further broken down into multiple cost categories.

If you are relatively new to capital project planning, you might consider one of two seat-of-the-pants approaches to developing a preliminary budget. The first is to pick an amount that you can afford (from **cash reserves**, borrowing money, fundraising, or some combination of all three) and

CONDUCT COST ANALYSES EARLY AND OFTEN

Many professionals recommend that costs analyses be conducted six or seven separate times throughout the development process. Early analyses tend to be rough estimates, with each subsequent analysis gaining additional refinement.

1. **Concept Phase**
   - Upon completion of the site evaluation and needs assessment
2. **Predevelopment Phase 1**
   - Upon completion of schematic design
3. **Predevelopment Phase 2**
   - Upon completion of design development
4. **Upon completion of any schematic redesign**
   - as required, for example, by funding agencies
5. **Upon feedback from lenders requiring budget adjustments**
6. **Upon completion of the construction contract documents**
7. **After the bidding process, to compare bids**

COMPONENTS OF A CAPITAL PROJECT BUDGET

The following ten categories are usually a part of most capital project budgets. While each item may not apply to your specific project, they have been included so that you can see the entire possible scope of project costs.

(1) Land or Building Acquisition

- Surveys and Site Assessments
- Appraisals
- Engineering and Topographical Studies
- Environmental Testing
- Purchase Price (of land)
- Legal Fees
- Demolition Costs of Existing Structure(s) (if appropriate)
- Recordation fees

(2) Professional Fees

- Architects and Engineers
- Legal Counsel
- Project Management
- Space Programming
- Construction Manager
- Cost Estimator
- Interior Designer
- Technology Consultants (Information Technology, Security)
- Equipment Planner
- Other Professional Consultants

(3) Construction

- General (fixed sum) Contract
- Separate Contracts for various specialties (only if deemed necessary)

(4) Site Preparation (most should be in the GC contract.)

- Utilities (water, sewage, gas, etc.)
- Site Drainage
- Landscaping
- Parking Lot
- Surfacing and Fencing
- Outside Lighting

(5) Furniture, Fixtures and Equipment (FFE)

- All Movable Furnishings,
- Medical and Dental Equipment,
- Computers, Telephones, Data Lines
- Security Systems
- Signage/Artwork
- Installation Fees

(6) Inspection

- Inspector to supervise work on owner's behalf (only if deemed necessary)

(7) Administrative and Permitting Costs

- Postage and Shipping
- Permits, Filing, and License Fees
- Moving/Storage Costs

(8) Financing Costs

- Commitment Fees
- Mortgage Recordation costs
- Interest during construction
- Lender's Inspection during construction
- Letter of Credit Fees
- Mortgage Insurance fees
- Interest Reserves

(9) Insurance

- Builder's Risk
- Property and Liability
- Worker's Compensation
- Fire and Theft

(10) Contingencies

- Emergencies and Unforeseen Events
- Change Orders during construction
- Soft Costs – 5%,
- Hard Costs – 10-20%,

* Adapted from The Little Institute for School Facilities Research

consider this to be your budget. A second approach is to estimate total square footage, multiply that by another estimate of construction costs per square foot, add roughly 30% to cover "soft" costs and contingencies, and arrive at a preliminary budget figure.

Both approaches may suffice to establish a "working number" for internal discussions with board members and staff. But, neither approach provides you with a true, reliable estimate of what the project will cost. And, more importantly, these rough estimates will not get you past the front door with prospective lenders or investors. Funders must be assured that you've given your project the best chance for success by thoroughly scrutinizing every cost category and planning for contingencies. Thus, developing a preliminary budget is important for at least four reasons:

- The preliminary budget sets the project's financial boundaries. Armed with a realistic budget, you can choose among different site options, project designs, and other critical decision variables with greater confidence;
- Once you have a good estimate of your project's total costs, you can then make educated decisions about financing options. For example, depending upon your project's scope and success at fundraising, you may be able to delay drawing down on your debt financing, and save on interest expenses;
- Your lender and/or prospective contributor will not take your project seriously if you haven't done your homework. Without an accurate project budget, your funders will not know how much funding you need, what kind of funding you need, and when the funding is needed; and
- A preliminary budget can reduce any unwelcome "surprises" during the development process. By accurately and honestly estimating every possible cost, you greatly improve the likelihood that the project will be completed on time, and within budget.

The preliminary budget is assembled after the initial space assessment is completed. At this point, you and your development team have a reasonably good idea of how much square footage the project will require (e.g., classrooms, common areas, office space, etc.). You may have also addressed major site considerations such as purchasing a new building or renovating an existing facility.

Detailed, multiple cost categories are important because they allow you to keep close tabs on what you will actually spend. Your lender also expects to see individual budget items so they know exactly what they are paying for. It is important to conservatively budget every line item (i.e., err on the side of slightly overestimating costs), since many lenders will not allow line items to vary, or will only allow a small (e.g., 2 to 5%) variance. Anyvariance will have to come out of budgeted contingencies, or reductions in other line items. For example, if you have budgeted $30,000 for legal fees, and the final bill comes to $38,000, you have three options: 1) take the difference from another line item; 2) take the difference from contingencies; or 3) add additional cash equity.

CONTINGENCY PLANNING

Even in the best of circumstances, situations will arise during the development process that you do not anticipate. Consider the following possibilities:

- All three construction bids come in between 3 and 5% higher than you budgeted.
- There is a shortage of materials, and your materials costs are higher than anticipated.

- Your contractor discovers asbestos on site and it has to be remediated.
- A major grant that you anticipated falls through and you are $500,000 short.
- The site is vandalized, and a portion of the work has to be redone. While the replacement of materials and the cost of redoing the work are covered by the **builder's risk insurance,** the damage to the project in terms of time delays must be considered.

Contingency planning is a must. Most experts recommend a 5% contingency on soft costs, a 10% contingency for new construction, and a 15 to 20% contingency for renovation projects. A higher contingency for renovation projects is advisable because these projects often involve older buildings, which can present unforeseen or hidden construction problems that aren't discovered until work is well underway.

While a contingency line item is always recommended, it cannot be a substitute for proper planning and budgeting. Indeed, if you are over budget, you may run out of money. Then, you may be forced to choose between one of two equally undesirable options: put the project on hold, while you go out and locate additional funding sources, or scale back on your project design.

It is rare for charter school operators to find a traditional school facility ready for their use. Many schools have adapted facilities not normally thought of as appropriate for schools, such as office space, warehouses, stores or retail space, and even residential properties. Leasing portions of another organization's space or using modular units (trailers) are also common solutions. Charter school operators who think about their needs flexibly, and plan strategically, will be better prepared for site selection and subsequent phases of the facility acquisition and development process.

ADDITIONAL RESOURCES

Business Planning Tools:

1. *Business Planning in Four Steps and a Leap,* by Northern Initiatives, Marquette, MI
2. *Business Planning Guide and Handbook,* by Neighborhood Reinvestment Corporation (Washington, DC)
3. *How To Prepare an Effective Business Plan: A Step-by-Step Approach*, by Robert Howell and Robert Delaney
4. *Technical Assistance Worksheets* by the Illinois Facilities Fund. Available online: www.iff.org/resources/content/1/2/documents/tech_sheets.pdf
5. *The Successful Business Plan: Secrets and Strategies*, by Rhonda Abrams, The Oasis Press/PSI Research Grants Pass, OR (1993)
6. *The Business Plan Workbook*, by Gary A. Cooper, Prentice Hall, Englewood Cliffs, NY (1989)
7. *National Clearinghouse for Educational Facilities* (free information on planning, designing, funding, building and improving schools) www.edfacilities.org/rl/edfacilities_planningII.cfm

4

Students studying in a classroom at Maya Angelou Public Charter School in Washington, D.C.

Predevelopment Phase

CHAPTER 4

The following section is divided into two parts. First, we discuss the key players on your development team: who they are, how to contract with them and how to pay them. Second, we review the major selection criteria for identifying a site for the project, and review critical site decisions that you must make early on: owning or leasing the site, and renovating an existing site or undertaking a ground-up construction project.

ASSEMBLING THE DEVELOPMENT TEAM

The role of the development team is to render a concrete reality from a creative vision. This is accomplished by successfully coordinating the skills and efforts of professionals from many disciplines. Assembling a strong team from the project's very earliest stages will go a long way towards facilitating the project's success. By involving key players from the beginning, you guarantee that all team members: (1) "buy into" the entire project from start to finish, (2) are well informed throughout the entire process, (3) understand their respective roles and responsibilities, and (4) are readily available, when needed, to make their unique contributions

Your team will meet countless times during the development process, which may range from one to three years (or even longer). Some individuals, such as the architect or project manager, will be a constant presence at nearly every stage of the process. Other specialized team members — attorney, real estate agent, and engineers — will be brought in as needed to provide their expertise.

Regular, effective communications between team members is critical. It is an excellent practice to establish a customary time for team meetings. These meetings are used to review progress, address outstanding issues, and generally ensure that everyone is "on the same page." During the early development stages, the team might meet once or twice a month, and then more frequently as the project advances into the construction phase.

Most likely, your site development team will include the following members:

- The Charter School Representatives
- The Architect
- The Project Manager
- The General Contractor
- The Attorney
- Consultants

The Charter School

Regardless of the number and/or quality of professionals on the team, the charter school itself is ultimately responsible for all decisions. While professionals are paid to design, construct, and offer expert advice, it is the charter school alone that must live with the consequences of their counsel, long after the last bill is paid. Thus, the charter school must ask the right questions,

evaluate the answers, and assess the short- and long-term impact of every decision, large or small, that may arise during the development process. Keep in mind that the design team works for you. Consider and evaluate their advice, but remember that you have the final say.

The school administrator, the staff, and the board of directors each have a unique role and perspective to share during the development process. The school's board of directors will have to decide if it is going to take responsibility for the project development or if it is going to oversee the process, but delegate authority for the day-to-day implementation of the project to the school administrator (e.g., principal, director). The scenario below assumes the latter—delegation of the day-to-day responsibilities to the school administrator.

- **School Administrator** The school administrator and board of directors are collectively accountable for the project's ultimate success or failure. In many instances, the board may authorize the school administrator to delegate a certain degree of authority to a project manager (see below). This is often the recommended approach, given the magnitude of the typical school administrator's responsibilities. Yet, even if the school administrator and board decide to appoint (or hire) a project manager, it is the school administrator who must work closely with the project manager to define and lead the process by which the development project will be initiated, communicate regularly with the board about significant issues that arise during the process, and "manage the manager" that oversees the project on a daily basis.

- **Stakeholders (parents, staff, students)** Early on in the concept stage, key stakeholders should be solicited for their input on layout and space considerations, since it is they who will be most affected by the building's final design. Be sure to make budget constraints clear to stakeholders when soliciting input, so that their expectations aren't unfairly inflated. In the best of circumstances, the construction project takes place at an off-site location, providing minimal disruptions to daily operations. If construction is to be performed on an existing facility, stakeholders should be kept well informed about its progress so as to keep frustration and anxiety levels to a minimum.

- **Board of Directors** As fiduciary agent, the board's role is to set the charter school's long-term course and ensure that it stays true to its mission. In the context of a development project, it is the board's role to provide unified support and ask the right questions throughout the process (e.g., Will this capital project advance our mission? Is the project financially sound? Is the project being managed appropriately?). The board should be kept apprised about significant decision points (e.g., project scope, project budget, selection of major team players, final design, site selection, etc.), but should avoid micromanaging the process, and entrust the school administrator with the project's major responsibilities.

The Project Manager

The role of the project manager (PM) is to coordinate every aspect of the project and manage each and every development team member. While the charter school board is ultimately responsible for the project's success (or failure), the PM has daily project responsibility for the myriad of details that require attention. Many lenders require that the charter school hire a project manager as a condition of extending a loan.

Similar to the timing for bringing your architect on board, the PM should be identified at the project's earliest stages. Indeed, one of the PM's first major tasks might be to coordinate the selection and hiring process of the architect. An ideal candidate for the PM role is an individual with a technical background (e.g., engineer, contractor, real estate developer), who has successfully managed similar projects. During the development process, the PM will juggle multiple tasks, coordinate schedules, and mediate on behalf of various team members. Consequently, this person should also have a meticulous attention to detail, strong organizational abilities, and effective communication skills.

The PM can be a charter school employee, but is more typically an individual hired specifically for this purpose. Obviously, overall project costs are reduced if an existing employee is charged with this role. But are the cost savings worth it? Most people vastly underestimate the time it takes to manage a facilities development project, and it is rare that the school administrator or another manager can dedicate 100% of their time to project management. The daily distractions and interruptions of their primary job responsibilities do not provide him or her with the singular focus that is needed to ensure the project's success. Further, few charter schools have an individual with the right combination of skills and experience to take on total project management responsibility. Finally, if the PM is a charter school employee, the lender may still require the charter school to hire an independent qualified third party, sometimes also called an Owner's Representative, to oversee the process.

HIRING A PROJECT MANAGER (PM)

(Adapted from: Illinois Facilities Fund. Technical Assistance Worksheets. Available online: www.iff.org/resources/content/1/2/documents/tech_sheets.pdf)

Project managers can offer any of the following services:

- Identifying members of the development team;
- Overseeing planning and design of facility;
- Developing project budgets and updating budgets as needed;
- Forecasting long-term financial needs to maintain and operate facility;
- Soliciting construction bids and ensuring receipt of building permits;
- Managing contractors and construction operations;
- Providing information to lender and funders and maintaining ongoing contact to ensure receipt of funding;
- Preparing monthly progress reports for board, funders, and/or school community; and
- Furnishing advice to the school about various aspects of the facility development process.

The Architect

Typically, schools choose to use an architect for their project; however, as discussed in more detail in upcoming Chapters 6 & 7, another option is select a contractor whose team will both design and build your facility ("design-build" approach). Before selecting an architect, your school should consider all of its options.

If your school opts to use an architect, the individual you hire must have the vision, creativity, and technical skills to design the project, as well as be licensed in the state where your school will be located. But of equal importance, he or she must be able to accomplish this task within the project's financial constraints. In short, the architect is the project's creative muse, but also must be enough

of a pragmatist to render creative ideas into workable, cost-effective solutions. It is important to select an architect who has experience in designing school facilities, and specifically charter schools, if possible. Check with your local charter school association and your peers to see whom they recommend.

The architect's primary responsibilities are to:

- Translate the project's space needs into a workable concept;
- Develop alternative schematic designs;
- Convert these preliminary designs into final blueprints from which the facility will be built;
- Hire and supervise engineers that may be needed (e.g., structural, mechanical, plumbing, civil); and
- Offer design advice, as needed, throughout the construction process.

Ideally, the architect should be hired early in the site development process to avoid costly mistakes down the road. During the early concept and site development phases, your architect can help sort through the charter school's facilities needs, consider functional uses of space, provide alternative design ideas, flag potential zoning or regulatory issues, and make design recommendations. If you are new to development, your architect will often provide leadership during the early stages of the development process. See next page for tips on choosing an architect.

General Contractor

The general contractor (GC) coordinates all aspects of construction, whether it is new construction or a major renovation project. The GC is frequently selected through a bidding process, after the construction documents are completed. He or she works from the architect's final drawings and specifications. Since the architect and GC must work closely together, it is important that they maintain a collegial, mutually respectful work relationship. In the case of a design-build situation, as discussed above, when the GC's team both designs and builds the facility, the responsibilities of the architect (discussed above) should be integrated into those discussed herein for the GC.

The GC's responsibility is to hire electricians, plumbers, carpenters and other subcontractors, and to make sure the work is completed in a timely fashion and in accordance with the design documents. During regular team meetings, the GC should provide a detailed report of construction progress and actual costs incurred against the established budget. Also at these meetings during construction, the GC, the architect and the PM will review any necessary "change orders" to the construction contract. Chapters 6 & 7 provide a complete discussion on selecting and negotiating with a general contractor, in addition to other topics related to the construction process.

The Attorney

The attorney's major role is to protect the ongoing interests of the charter school from the development's earliest concept stage to the facility's ribbon-cutting ceremony. In this regard, he or she negotiates substantive business issues, drafts various legal agreements that the charter school enters into (or reviews other attorneys' drafts), and advises the charter school at critical moments (i.e., negotiating a lease with prospective landlord, purchasing a building, or finalizing a

CRITERIA FOR SELECTING AN ARCHITECT

(1) Experience with Similar Projects

- How many projects has the architect designed of similar type, size, and complexity in the last five years? (Note: If possible, visit these projects. If not, look at pictures, but in any event, contact the owners and ask about their experience.)
- Have these comparable projects been brought in on time and on budget?
- Does the design quality demonstrate that they meet user needs, and are built to last?
- Does the architect have a keen appreciation for the unique demands of a charter school setting?

(2) Experience in the Real Estate & Regulatory Environments

- Is your architect "local"? How well does he/she know the local real estate community, which might prove useful in terms of site selection?
- Will the architect be able to help you navigate any zoning and/or permit issues?

(3) Technical Expertise in Construction

- What is the architect's level of expertise around construction issues?
- Does the architect have experience with any local contractors, tradespeople, etc.? Ask for references from general contractors with whom the architect has worked.
- How well has the architect been able to interpret his clients' needs while paying attention to their budgets? Will the architect be able to help control costs, but still produce a high quality project?
- What is the architect's experience in bidding construction contracts? Can you rely on the architect's expertise, and does he/she add value to the bidding process?
- Does the architect have construction management experience? (This is not necessary but may be useful, depending on the project).
- What is the architect's experience with construction administration?
- How well have the architect's previous projects withstood the test of time? Contact previous owners of similar/dissimilar projects to test this criterion.

(4) Understanding Funding Issues

- What is the architect's level of understanding about the funding requirements of your project?
- Does the architect have a keen appreciation of the budget constraints of your project?
- Can the architect develop cost-effective solutions to your unique design requirements?

(5) Personal Issues and Characteristics

- Is the architect registered or licensed in your state?
- Is the architect enthusiastic about your project and committed to working with the charter school?
- Will the architect you are interviewing be available during the entire development process, or will your project be handed off to other team members who you don't meet at the interview?
- Do you think you would feel "comfortable" working with the architect during the lengthy development process? Is his/her personality well suited to working on the development team?
- Is the architect a clear, effective communicator?

construction contract). It is important that you use an attorney who has experience in local real estate matters, since real estate practices often vary significantly by location.

Depending upon the nature of the project, you may find it necessary to solicit specialized legal advice. For example, if you are financing the project with tax-exempt bonds, you must have bond counsel— an attorney with specific expertise in reviewing the **bond** purchase agreement and other legal documents associated with this complex financing method.

The Real Estate Agent (Optional)

While a real estate agent is not an essential member of the development team, it is often useful to have a relationship with one since they are knowledgeable about market conditions, and, therefore, may be aware of available properties that are outside the team's field of reference. The role of a real estate agent is to facilitate the purchase of an improved or unimproved parcel of land or facilitate the purchase of a building between a seller and a buyer. If you intend to lease a building, a real estate agent (or other real estate professional such as a commercial leasing agent) can also locate leased space.

Keep in mind that, unless you have a specific agreement with a "buyer's agent," the real estate agent always represents the seller (or property owner). This arrangement dictates how commissions are calculated, who pays the fees, and the type and nature of disclosures that are provided about the property.

Depending upon your project's complexity, there may be many other members of your development team that play a minor, albeit important, role at some point during the project. Examples of other team members include cost estimator, environmental audit firm, interior designer, information technology consultant, and financial consultant.

PAYING YOUR DEVELOPMENT TEAM

There are many industry-accepted compensation approaches in the real estate and building professions, but they each vary according to project scope and level of complexity. Regardless of which payment method is used, you must be sure that you and your development team members are clear about the desired scope of services, and that the fee arrangement is negotiated at the beginning of the project.

Most attorneys are paid on an hourly rate, based on the number of hours billed (plus any out-of-pocket expenses such as photocopying, filing fees, overnight mail services, etc.). It is advisable to obtain an estimate from the attorney on what his or her time on your project will cost, from start to finish. On the other hand, architects may be paid in one of several ways, depending upon the level of services and complexity of the project:

Options for Paying your Architect

- **Fixed (stipulated sum) Fees** In a fixed fee structure, an architect quotes a fixed price for the entire project. Fixed fee payment methods are advantageous because they help control costs, but the charter school board should carry a contingency in the event that unforeseen expenses arise during the course of the project. You should make sure that you understand what services are included in the fee, so that you can effectively evaluate its reasonableness. For example, it is reasonable for your architect to limit the number of redesigns for the project during the schematic phase, but by how much? How many redesigns is it fair

to expect? How many times will your architect visit the site during the construction phase? Architects' fees are usually tied to the phase of the design work being completed (e.g., schematic, design development, construction documents, construction administration).

- **Hourly Billing** Hourly rates are a flexible method of payment when the exact project scope is not fully defined. An inherent downside to this approach is that the fee cannot be accurately budgeted. One way to overcome this obstacle is to use hourly billing during the very early stages of the project's concept, and then convert to a fixed arrangement during the design development stage. Out-of-pocket expenses (or "reimbursables") are usually billed separately, and can be capped at a preset amount.

- **Percentage of Construction Cost** This payment approach ties the compensation to total construction costs. Many architects shy away from this payment method because it (erroneously) assumes that the architect's effort is somehow proportional to the cost of construction. It may also penalize the architect who attempts to work with the client to reduce construction costs during the design stage, because if the total construction costs are lowered, the architect's fees will be lowered in turn. This payment approach may not provide the architect with a financial incentive to reduce construction costs.

Options for Paying your General Contractor

Banks typically prefer that the fee be capped when the construction contract has been finalized and prior to closing of the construction loan. General contractors are usually paid in one of three ways, although the first two methods (i.e., stipulated sum and cost plus guaranteed maximum price) are most commonly used.

- **Stipulated Sum Contract** This is a fixed price approach in which the contractor specifies an amount that he or she will charge for the entire project based upon detailed design and materials specifications contained in the final construction documents. Value engineering must occur before the contract is executed. Any changes to the contract are made using a "change order" which increases or decreases the final contract amount (see Chapter 5 for further information on this topic).

- **Cost Plus with a Guaranteed Maximum Price (GMP)** This is another fixed price approach, however, in contrast to a stipulated sum contract, there may be more flexibility built into a GMP since the contract has built-in allowances for value engineering design. For example, the contract may quote a GMP that has a 10% contractual allowance built into the total price. If the contractor can identify cost savings during the construction process, those savings are split (on a pre-determined basis) between the charter school and the GC. Conversely, if the GC errs and incurs additional costs, these are borne by the contractor alone. Like the stipulated sum contract, any unforeseen changes to the costs are made using a change order.

- **Time and Materials** In this approach, your contractor is paid an hourly labor rate, plus all materials. This may be a good payment method for a relatively small renovation job of limited duration and complexity, but it is not suitable for a major construction project of any type.

For certain consultants (e.g., attorneys, architects), charter schools might sometimes be tempted to rely on a pro bono arrangement with a current or former board member, or other friend of the charter school. This approach can work, and will undoubtedly save you money that can be put to use in other parts of the budget. However, it can also present serious downsides. For example, an attorney that provides services on a volunteer basis may be busy with a paying client at a crucial point in your negotiations. Moreover, if you are dissatisfied with the quality of product, it makes for a very awkward situation. In short, it is usually a much better approach to hire professionals so that you can better control the quality and pace of their work.

Contracting with Your Development Team

The charter school must enter into a legally binding contract with each development team member prior to the commencement of services. The contract must clearly spell out the scope of services to be provided, the timeframe during which services will be provided, the respective parties' rights and responsibilities, the fee schedule, and other matters that define the nature of the relationship between the charter school and the development team member.

WHAT EVERY CONTRACT SHOULD INCLUDE:

- The parties to the contract
- The purpose of the contract (e.g., to retain the services of a project manager)
- The scope of the agreement (e.g., to assist with site selection, selection of contractors, monitor construction and oversee move-in)
- Roles, duties and responsibilities (ex: attend all project meetings, inspect all construction work, etc.)
- The time of performance (ex: deadlines, start and end dates)
- Compensation
- Termination clauses

The building and construction industry relies heavily on standardized forms of contracts. There are contract forms for bonding, insurance and other legal representations and warranties. Your architect should also provide general conditions of the contract (sometimes separate from the actual construction contract) that outlines rights, responsibilities and duties of the charter school and contractor, as well as Contract Modification forms used for change orders. Form contracts developed by The American Institute of Architects (AIA) are widely used by many of the players in the development process in addition to architects, including general building contractors, construction management firms, and lenders. Building contractors also use standardized forms provided by The Associated General Contractors of America (AGC). Even if your development team relies on standardized forms of contract that are routinely used, you must read them closely so that you understand their key terms and conditions. For example, in a "standard" architectural design contract, certain deliverables such as models, artist's renderings and computer graphics may not be included. Finally, your attorney should also review all documents before you sign any contract.

Different bidding processes and contract types

BIDDING		Pros	Cons
Competitive Bid	Provide specifications of the work to be done to several GCs. Each responds with a bid of how much they will charge if you select them.	+ encourages lower prices + allows you to compare prices + gives more GCs a chance to win your business	- may allow GCs to under-estimate costs to win the bid, and work may not be completed for stated price - can be lengthy process to develop specifications, oversee bidding process
Negotiated Bid	Select a GC you want to work with, negotiate the price of the work (no bidding).	+ faster than competitive bidding + may get more realistic final cost	- doesn't allow comparison to other GC's - may not get lowest cost
CONTRACTING		**Pros**	**Cons**
Stipulated Sum Contract	GC submits a fixed price for the contracted items. Any changes are billed separately.	+ allows you to count on a basic price for the majority of the work, then approve changes you did not anticipate depending on how much extra each costs	- if your original contract was not complete or specific enough, you could incur significant additional costs when you approve changes
Cost Plus Fee or Guaranteed Maximum Price Contract	GC submits a maximum price for which he will complete the whole job, and may include built-in allowances.	+ allows more negotiation over what work will be completed + charter school has greater control	- may be much more expensive for charter school
Time Plus Materials	No set price; GC charges for each task completed (labor and materials).	+ allows project to be completed piece-by-piece	- encourages GC to create more work to be done - no absolute figure for budget - requires heavy monitoring by charter school

SITE SELECTION

The site selection process involves many important and interrelated tasks:

- Assembling a team to guide your school through site selection and development;
- Reviewing criteria for selection of a site, and subsequently, identifying a site or devising a plan for your project; and
- Initiating the loan process with a lender.

This section walks your team through the site selection process, including addressing, in detail, the items discussed above.

Selection Criteria

Selecting the site is undoubtedly one of the most critical phases of the development process. Ideally, site selection should take place after the needs assessment is completed. If approached in this order, potential sites can be thoroughly analyzed to make sure they can physically accommodate the proposed project. If the site is selected ahead of time, you may find that you have to compromise on key design aspects due to site limitations.

At this stage, charter schools may fall prey to a common pitfall: since the costs associated with the development process are enormous, the design team may feel pressure to develop a workable site plan quickly and move on, rather than testing various ideas and choosing the best one. Professionals often recommend developing one, two, or even three alternative site plan concepts and doing so for multiple sites if more than one is under consideration. Consider the following:

1. By accepting the first plan that seems "OK," you may be forced to make design compromises later in the development process, ending up with a project that is less successful than it could have been;
2. By analyzing alternative site plans, you can truly compare costs and design features in a tangible, rather than abstract, way;
3. By evaluating multiple options, you can more effectively rank project priorities (e.g., cost?, location?, size?); and
4. By allowing yourself to do a comprehensive review of multiple site options, you are more likely to convince lenders and other funders that you are committed to building the best project possible.

During the site selection process, the development team may encounter situations where the site is not ideal, but where a creative design plan can offset challenges. In another setting, you may conclude that no amount of effort or re-design can overcome a site's inherent deficiencies. Before purchasing a piece of property or a building, one must confirm that the **zoning** allows your project to occupy that particular site. This is one of the investigations that is conducted during the "due diligence" period prior to closing on the purchase. Other due diligence items include verifying that adequate public utilities are available, determining that there are no environmental hazards on the site, and conducting a geotechnical (soils) investigation if new construction is planned.

In short, site selection is the systematic process of examining multiple options and assessing their relative advantages and disadvantages, based on numerous factors. When reviewing your site options, use the Site Selection Criteria provided in this section to assess the fit of the site, compare and contract sites, and prioritize needs.

SITE SELECTION CRITERIA

1. Location

- Is the site located in the charter school's primary service area?
- Is it accessible by public transportation?
- Is it convenient for students and staff?
- Are nearby traffic levels adequate?
- Is the site visible to passersby, on foot or in vehicles?
- Are adjacent businesses appropriate (e.g., no adult video stores)?
- Is there a history of crime or vandalism in the area?
- Is the area suitable for evening events?

2. Site/Land

- Is there access to utilities (e.g., electricity, sewer, water, gas, phone)?
- Will the site require heavy maintenance (e.g., topography, drainage, retaining walls or geotechnical issues)?
- Is the proposed use for the project permitted by **zoning?** (For example, can you build the type of project you want on the site?)
- Is there adequate space for parking?
- Are the soil conditions conducive to the project's structural needs?

3. Building

- Is the size adequate and can it accommodate future growth?
- Is it structurally sound?
- What is the condition of the roof, exterior walks, and windows?
- What is the condition of all major systems (e.g., plumbing, electrical, heating/ventilation)?
- Can the seller or **broker** provide you with recent utility bills from all seasons?
- Has the building been checked for asbestos, lead paint, or other hazardous materials?
- Are there appropriate fire exits?
- Is the building ADA-compliant (Americans with Disabilities Act)?
- Can the space be easily reconfigured for educational and administrative space?
- Will projected energy costs be reasonable?
- Is there proper drainage in the basement?
- What is the condition of adjacent and nearby properties?

4. Costs and Renovations

- Is a recent appraisal available?
- Is the purchase price (or lease rate) reasonable, and comparable to similar sites of similar age and quality?
- Are the preliminary costs for improvements reasonable? Has your architect or project manager confirmed them?
- What are the estimated maintenance costs?

5. Legal and Timing Issues

- Is the property or site vacant and available immediately?
- Is the seller motivated to sell within your timeframe?
- Is sufficient financing available to complete the transaction within the required timeframe?
- Are there zoning restrictions? Will there be a need for zoning variances or lengthy hearings? Required setbacks? Legal easements or rights-of-way across the property? Prior title issues?
- Are you permitted to display signage on the site?
- Will building permits be available within the required timeframe?
- Are there any political issues that would block approval of the site? Are the neighbors likely to be supportive?

As your development team considers its options, you should become familiar with two common calculations to assist in your decision-making:

- **Cost Per Square Foot** (cost psf) is the total cost divided by the total square feet of space. For leased space, the cost psf is your annual rent divided by total square feet. The definition of "usable square footage" varies by local custom. (Find out if the definition in your community includes space taken up by walls, elevators, etc.) Taxes, insurance, and utilities may or may not be included, so this should be carefully verified. If these items are not included in the base lease rate, this is referred to as a "triple net" lease, meaning that the base rate is net of these three expenses, and that the lessee (the charter school) is responsible for payment for those items. For a building purchase, the cost psf is the purchase price divided by the total building square footage. Your development team should verify how square footage is determined, (preferably by an independent third party appraisal) and whether or not it also includes unusable space. Finally, for a land purchase, the purchase price may be quoted on a per acre, or per square foot basis.

- **Cost of Improvements** This is a more difficult figure to develop, as it is based on a preliminary budget for a potential site (see Chapter 6, *Pre-Construction & Financing* for a full discussion about preparing a preliminary budget). If the site is purchased, your development team must estimate the cost of hard improvements plus all "soft costs": (i.e., consulting fees, appraisals and other third party reports, financing fees, and **closing costs**). If the site is leased, you must calculate the one-time costs to "improve" the property so that it is ready for occupancy. Some landlords will provide a building allowance that can be applied to your improvements, and this consideration should be factored into the calculation.

Consider a Variety of Options

Creativity and flexibility are very important when seeking an appropriate home for your charter school. The following chart summarizes advantages and disadvantages of various types of space.

Facility for Bronx Prep Charter School in the Bronx Borough of New York City

Type	Pro	Con
School buildings	• Ideal academic setting • Already arranged with classrooms, gym, cafeteria, library, administrative offices • Site is usually very accessible • Good parking, playground space • Rarely available in good condition	• Sharing space with charter schools difficult in some districts • School buildings sometimes deed restricted to educational use (decreasing the re-sale value for charter schools purchasing these facilities)
Commercial space	• Frequently available in strip malls • Large, open spaces easily converted to classrooms • Easy bus and car access • Good parking	• Extensive renovations required • Few windows, poor light and ventilation • Setting often inappropriate for school • Limited playground space • Busy traffic may be safety issue • May not be zoned for education use
Office space	• Frequently available • Access to public transportation • Good parking, car access	• Extensive renovations required • Limited non-academic space (gym, etc.) • Limited playground space • Elevators and potential safety issues • May not be zoned for education use
Residential space	• Location accessible to student homes	• Extensive renovations required • Limited non-academic space • Zoning variance possibly necessary • Limited parking • Potential difficulties accommodating growth • Possible resistance from neighbors
Warehouse/ flex space	• Large, open spaces easily converted to classrooms • Easy to adapt space for non-academic uses (gym, etc.) • Easy bus and car access • Good parking	• Extensive renovations required • Limited access to public transportation • **Zoning** variance possibly required • Potential hazardous material issues • Possibly inappropriate setting for school

Continued on following page.

Type	Pro	Con
New construction	• Tailored to the school's needs • Low maintenance costs • Attractive to prospective parents	• Public funds to construct new buildings sometimes prohibited for charter schools • Very expensive (though sometimes actually cheaper than renovating) • Code requirements for new buildings may be more extensive • Disposition of building if charter is not renewed
Modular units (trailers)	• Can be obtained quickly • Appropriately sized space provided • Configured in flexible ways • Short term commitment • Flexibility of location • Growth easily accommodated	• Expense of necessary site work • Sub-optimal in bad weather conditions (not all under one roof) • Limited office and non-academic space
Houses of Worship	• Usually very affordable • Frequently available during school days • Often configured with classrooms • Often include gym, cafeteria, play ground • Good access, parking	• May need to set up every Monday, pack up every Friday

Own vs. Lease

Many charter schools face the dilemma of whether to purchase or lease a facility. There is no right answer. Both options have advantages and disadvantages, and must be evaluated in the context of your unique circumstances. In the event that you choose to lease a site, it is crucial that you pay attention to these finer points:

- Who is responsible for utilities, taxes, and insurance?
- Who is responsible for building maintenance, both interior and exterior, site maintenance (e.g., snow removal), and custodial duties (e.g., trash removal)?
- Is there access to shared amenities (e.g., parking, common space, etc.)?
- Does the owner provide access to the site after regular business hours for evening meetings and activities?
- What type of building security is available and who is the responsible party?
- Will the owner provide a rent abatement clause? (This is typically a reduction in rent for a specified number of months, usually while the premise is being improved and the tenant is financing his or her own improvements.)

- Are there any restrictions on the type and amount of leasehold improvements that you can make to the property? Does the owner give you a leasehold improvement allowance?
- Can you sublet parts of the site to other parties (e.g. after school and tutoring programs)?
- What type of notification will you receive prior to lease termination? Are there options to renew the lease?
- Is there a purchase option at the end of the lease term?
- Is there a subordination clause in the lease? For example, will the landlord provide subordination to your lender for the purposes of financing leasehold improvements?

PURCHASE/OWN VS. LEASE

Purchasing/Owning

ADVANTAGES	DISADVANTAGES
■ Is usually appropriate for charter schools that are knowledgeable about financial and legal issues surrounding property ownership ■ Allows the charter school ultimate control over the physical plant ■ Protects from the uncertainty of short-term leases or "difficult" landlords ■ Provides the charter school with a sense of permanence and investment in the community ■ Is an effective approach to build equity	■ Requires an upfront cash investment ■ Requires a substantial investment of time ■ May require significant fundraising and/or long-term debt burden ■ Requires ongoing maintenance and other responsibilities of property management

Leasing

ADVANTAGES	DISADVANTAGES
■ Provides greater flexibility in case the charter school decides to move at a later date ■ Depending upon the lease agreement, the charter school might be able to apply a portion of lease payments towards purchase at a later date ■ Usually requires less upfront cash ■ May not carry the responsibilities of property management ■ The charter school is not affected in the event of a real estate downturn, and in fact could benefit from a soft rental market	■ Creates uncertainty at the end of the lease term; the charter school may have to locate alternative space if the landlord chooses not to renew the lease ■ May be harder to obtain financing for leasehold improvements and other capital purchases since some leaders will not accept a lease as **collateral** ■ Can be more costly over the long-run since the cost of any property improvements cannot be recouped ■ Does not provide the charter school with direct control over property management issues ■ Often difficult to estimate (and/or control) CAM (**common area maintenance** costs – the costs of space shared with other tenants)

Renovation vs. New Construction

Another crucial variable is whether to renovate an existing building, or to construct a new facility, also referred to as "ground-up construction." Again, there are relative advantages and disadvantages to both, and each must be reviewed in the context of your charter school's unique circumstances.

Your development team may decide to construct a new facility for many reasons. First, the existing building may be configured such that there is no additional space and/or no viable options for renovating or adding on new.

Second, in a ground-up construction project, you have control over more variables, and therefore you are more likely to achieve your goals within your budgetary constraints. Your architect can design a building with your specific requirements in mind, rather than being forced to work within an existing space.

Third, there may be less disruption to current operations since construction will be taking place off-site. Finally, there are more "surprises" connected with renovating an older building due to hidden or unforeseen conditions. Most budgets add a contingency factor of 10% for new construction versus 15 to 20% for a renovation project.

There may be compelling reasons to renovate the charter school's current site, or purchase another building and retrofit it to suit the charter school's needs. The school's current location may be a huge advantage for staff and students. There may be no available land on which to construct a new building. Your development team may locate a building that, with relatively minor renovations, addresses your space and design requirements. An engineer's building evaluation or assessment may

A SIMPLE GUIDE TO LEASING

As has been noted, there are many instances when leasing space instead of purchasing or constructing a school makes sense. If your school does decide to lease, keep in mind these additional considerations.

- Keep your lease term to no longer than your charter term (your landlord may require this).
- A rule of thumb is to use between 10 – 20% of per student revenues on your facility costs. Schools spending more than this will need to spend less on students.
- All real estate leases and related documents should be reviewed by your attorney. Phrases that seem straightforward (or confusing) can be important if you end up negotiating difficulties with your landlord.
- When doing leasehold improvements, remember that you cannot take them with you. Unless you have a long-term lease, be careful in the amount you spend.
- Personal guarantees should be provided as a matter of last resort.
- Moving every year, because of student growth, can seem like a good way to keep rent costs down initially. However, even when done during the summer, moving is disruptive for your staff and families. Don't underestimate this drain on personnel and financial resources.
- Negotiate your lease – common area costs, annual rent escalators and purchase options are all often discussed between landlord and tenant.

also reveal that the building's structure, roof, and mechanical systems have sufficient life before replacement is needed. In other words, there are major considerations in a renovation project. For example:

- What level of rehabilitation will be needed to implement the program in this building?
- Will hazardous materials become an issue during the renovation?
- What code compliance issues are involved?
- If the charter school's site will be renovated, how will you manage current operations and where will everyone be situated during the construction project?
- Will the building accommodate the types of mechanical systems, energy improvements, and safety features needed?
- Is the building appropriate for the charter school's programs and activities? Is it a "good fit"?
- Will the building be accessible to people with disabilities?

In sum, it is important to pull together an effective site development team, consider alternative options, carefully estimate the costs of each, and initiate a relationship with your lender before making a final decision about your site. Once a final decision has been made, you are in a better position to determine how you will pay for your facility (Chapter 6) and to begin the process of designing it (Chapter 5).

ADDITIONAL RESOURCES

1. *Finding a Home* by E. Merritt & J. Beaudin (November 2002) (article on importance of finding adequate facility) http://asumag.com/mag/university_finding_home/
2. *Schools Adapt Old Lessons: Share and Share Alike* by M. Fuchs (September 2002) (New York Times article on sharing space) www.cefpi.org/nytimesarticle.html
3. *Lowering the Overhead by Raising the Roof: and other rural trust strategies to reduce the costs of your small school* by B. Lawrence (To order: contact the Rural School and Community Trust, 1825 K St., NW, Suite 703, Washington DC, 20006, 202-955-7177).
4. *Innovative School Facility Partnerships: Downtown, Airport, and Retail Space.* Policy Study No. 276 by Taylor, M. & Snell, L. (www.rppi.org/ps276.html).

Students at work in Maya Angelou Public Charter School in Washington, D.C.

5

Students lunching in the cafeteria at Maya Angelou Public Charter School in Washington, D.C.

Facility Design and Pre-Construction

CHAPTER 5

The design stage is one of the most exciting aspects of the development process. It is during this stage that the development team pulls together the ideas, desires, and constraints to shape them into a viable plan, and ultimately, into a tangible project.

Although not always a linear process, the design stage most often consists of three distinct activities: (1) finalizing space assessment, (2) designing the facility: pre-schematic, schematic, design development and final design, and (3) completing the construction documents. In addition to design, this section will cover critical tasks that need to be completed before your team can begin the important task of selecting and negotiating with a general contractor and constructing your facility.

FACILITY DESIGN

Finalize Space Program

During the concept and site selection phases, the charter school completed a preliminary space assessment. Before the design stage gets fully underway, you must finalize your space assessment. The process involves a final count of every room and space that you want to include in your building project along with the ideal dimensions. The sum total of these dimensions provides you with a net square footage number.

Using the net square footage number, your architect will apply a multiplier to account for additional space requirements that are not part of the space assessment. These additional spaces may include corridors, mechanical rooms, shafts for ductwork, telephone closets, and so on. The total of these computations is a gross square footage number.

Depending upon the building's space configuration, the gross square footage figure may be as much as 30% higher than the net square footage figure. There are numerous factors that increase the gross square footage number. For example, you may choose to have double-loaded versus single-loaded corridors. In a double-loaded corridor, there are rooms on both the right and left sides. By contrast, in a single-loaded corridor, rooms feed off from only one side. Thus, while single-loaded corridors use the same amount of corridor space as double-loaded corridors, they are less efficient because the hallway is serving only half as many rooms. Once the final preliminary space assessment is completed, your architect can begin the pre-schematic design by organizing the spaces so that they make sense.

Pre-Schematic Design

The pre-schematic design phase involves combining basic concepts about the building's space with its functional needs and translating them into a visual design. Using data gathered during the concept and site selection phases, your architect will prepare rough drawings of the building's interior and exterior. During subsequent stages, these sketches will be considerably refined until they ultimately form the basis for the building's actual construction. However, don't underestimate the importance of the preliminary drawings. They are extremely useful down the road, serving as visual points of

reference for progress made. Frequently, an idea that seems great in theory turns out to be quite different when illustrated on paper.

Typical "deliverables" at this stage are large block (or "bubble") drawings showing the basic outlines of a floor plan, major service and/or activity areas, and space flow. These drawings are compared to the final space assessment to make sure that all functional space requirements are included. At this early design stage, it is fairly easy and inexpensive for your architect to make changes to the drawings, so it is important to confirm that the project's major components and requirements are addressed for the purposes of subsequent design refinement and development of preliminary cost estimates.

Schematic Design

The schematic design stage more firmly establishes the project's scope and conceptual design. Rough sketches produced during the pre-schematic phase are refined into more detailed drawings, showing the total space assessment and related dimensions, floor by floor and room by room, including common areas, hallways, entrances and exits. Also during this phase, your architect will begin developing detailed specifications about major project components such as the type, quantity, and quality of materials; proposed systems (e.g., electrical, plumbing, heating, ventilation and air conditioning or HVAC); and other features of the proposed building such as stairways, roofs, foundation, walls, and doors.

A typical set of "deliverables" might include preliminary building plans with elevations (what the exterior of the building looks like from all sides) and sections (views through the interior of the building as if it were sliced apart), perspective sketches (or study models), electronic visualizations and a statistical summary of the building area and other characteristics. Often, it is worthwhile to commission an artist for a rendering of what the finished building will look like, including exterior landscaping. Many of these documents will be used to make presentations to key constituencies, to solicit support from funding sources, and to respond to third party regulatory agencies (see section below entitled "Obtaining Third Party Approvals).

Since the schematic design deliverables are now further advanced, your development team can develop more accurate cost estimates based on the project's specifications. Consequently, this is an appropriate time to evaluate design alternatives and options. You should also recognize that as your project is further refined, design changes become more costly.

Design Development

In the final design development stage, your design team will be building upon each and every decision made during the pre-schematic and schematic phases, and further refine them into a unique, highly specific architectural design from which the construction documents will be prepared. Your architect will present a clear and well-coordinated description of every design aspect of the building (interior and exterior), including actual space dimensions. Decisions will be made (and finalized) regarding every necessary building system (e.g., mechanical, plumbing, electrical, fire protection). Also at this stage, major decisions must be finalized about all materials to be used to construct the building, as well as smaller, but equally important decisions such as room signage, room numbers, and a keying system for all doors. Note: The room numbers assigned by the architect for reference purposes on the drawings may not be the room numbers you want on your room signs.

The "deliverables" at this stage are similar to those in the schematic design stage, but considerably more detailed and refined. For

example, the drawings will show the exact location (and dimensions) of every room, hallway, door, floor, and system components. Since the building's design is becoming more detailed, this is the time when more complete cost estimates are prepared. Also, preliminary conversations should begin with the local and state regulatory departments that will issue permits, licensing and other approvals (see section below entitled "Obtaining Third Party Approvals").

Value Enhanced Design / Value Engineering

Value engineering (or more broadly, "value-enhanced design") is a widely accepted approach to identifying areas for cost savings in the building design by considering less expensive alternatives. Development professionals place an emphasis on value in any building project. This process allows your team to identify and manage conflicting project values such as cost, quality, long-term performance, and scheduling issues.

For value engineering to be most useful, the process should be completed towards the end of design development. With the help of a third party consultant (usually one with an engineering or construction background), each major project component that involves relatively expensive materials and/or systems (e.g., mechanical, electrical, plumbing) is evaluated against a more economical alternative. By systematically assessing each major project component, you can make better-informed decisions about how to best allocate your budget.

For example, you may want brick veneer on all exterior walls, but find that it is too expensive. A good compromise might be to put brick veneer on the front and side walls only, and to use a less expensive material for the rear walls. The point is to identify the designs and materials elements that are critical to the project. Then, you can more effectively manage trade-offs and adjustments so that the overall project is not compromised.

A related activity is "design alternatives," a process of considering different design options. For example, the charter school may anticipate future enrollment growth, but cannot presently build additional space due to budgetary restrictions. Thus, your development team may consider a design alternative during the design process that would address future growth. One option might be to purchase a larger site than is needed for the actual dimensions of your building, so that you can build an addition at a later date. A second option might be to design and build a second story, but postpone the major costs associated with it, such as installation of the elevator, construction of interior partitions, and finishes. In sum, using a design alternatives approach enables you to build the facility within the constraints of your budget, but allows for future growth without compromising the project's design.

You might also consider the use of "bid alternatives" which have alternative design elements that you might want to include or exclude, depending upon the cost of the project. This topic is further discussed in Chapter 7: Construction, in the Managing the Constructing Process section.

Design Considerations for People with Disabilities

In addition to addressing linguistic, cultural, and financial barriers, eliminating physical barriers for charter school students, staff, and visitors with disabilities is crucial. Moreover, cost, design, and scheduling considerations are such that these physical accessibility issues must be tackled during the early design stage of the development process.

Every charter school must comply with the Americans with Disabilities Act (ADA), which

mandates that public buildings must be "accessible" to individuals with disabilities, i.e., free from barriers that make it difficult or impossible to use the facility or to obtain its goods and services. It is your design team's responsibility, under your leadership, to ensure that the building is "code-compliant" and includes the appropriate features and equipment that make it accessible to, and usable by, people with disabilities.

Many people make the mistake of thinking that "accessible" means wheelchair accessible only, but in fact these statutes cover a broad range of issues in addition to mobility, such as vision and hearing impairments. Also, keep in mind that many people benefit from design and architectural features that make a facility more accessible, from a staff person temporarily on crutches for a sprained ankle to a the student with a permanent disability.

You should make sure that your architect (and the general contractor you ultimately select) is knowledgeable about accessibility issues as they relate to building design. In particular, you may wish to quiz potential architects about their interest in the growing field of "universal design": the process of creating environments which are usable by people with the widest possible range of abilities and operating within the widest possible range of situations.

Construction Documents

Once the design development phase is complete, your architect along with any engineer(s) and other consultants that he or she may employ is ready to prepare detailed construction documents. Completion of the construction documents is one of the final steps to be taken before putting the first shovel in the ground. In short, construction documents are a written and graphic documentation used to bid, and ultimately build, the project. They serve at least three objectives:

1. To provide the charter school with a detailed look at the entire scope of the project;
2. To communicate clearly to the GC the exact quantities, qualities, and configuration of variables required for project construction. In turn, the GC will use these documents to solicit bids and/or estimates from subcontractors and suppliers that he or she will engage; and
3. To be submitted to third parties (e.g., licensing and permitting authorities, financial institutions, etc.) to obtain the approvals necessary to move forward with your project.

Producing the construction documents is a major undertaking and it involves a collective effort by many design professionals. If your charter school development project is typical, the preparation of the construction documents will likely include participation by architects, civil, structural, mechanical and electrical engineers, landscape architects, fire protection specialists and interior designers. It's not uncommon to have additional input from door hardware consultants, security consultants, and other professionals, as well.

While most of the effort expended during this phase is by the design team, communication with you, the owner, is very important. During this period, numerous decisions are made that will affect the outcome of the final project and, most importantly, the budget. As the working drawings take shape, your development team will formulate more detailed budget estimates. It is vital that you stay very involved during this stage of the process. It is far cheaper to make changes on paper, than to be forced to rip out a section of brick or drywall once construction is underway.

SEVEN PRINCIPLES OF UNIVERSAL DESIGN

(1) Equitable Use: The design is useful and marketable to people with diverse abilities.

- Providing the same means of use for all users, identical whenever possible, equivalent when not
- Avoiding segregating or stigmatizing any user
- Ensuring that privacy, security, and safety are equally available to all users
- Making the design appealing to all users

(2) Flexibility in Use: The design accommodates a wide range of individual preferences and abilities.

- Providing choice in methods of use
- Accommodating right and left-handed access and use
- Facilitating the user's accuracy and precision
- Providing adaptability to the user's pace

(3) Simple and Intuitive Use: Use of the design is easy to understand, regardless of the user's experience, knowledge, language skills or current concentration level.

- Eliminating unnecessary complexity
- Remaining consistent with user expectations and intuition
- Accommodating a wide range of literacy and language skills
- Arranging information consistent with its importance
- Providing effective prompting and feedback during and after task completion

(4) Perceptible Information: The design communicates necessary information effectively to the user, regardless of ambient conditions or the user's sensory abilities.

- Using different modes (pictorial, verbal, tactile) for redundant presentation of essential information
- Providing adequate contrast between essential information and its surroundings
- Maximizing "legibility" of essential information
- Differentiating elements in ways that can be described (i.e., makes it easy to give instructions or directions)
- Providing compatibility with a variety of techniques or devices used by people with sensory limitations

(5) Tolerance for Error: The design minimizes hazards and the adverse consequences of accidental or unintended actions.

- Arranging elements to minimize hazards and errors, (i.e., conveniently placing most used elements and eliminating, isolating, or shielding most hazardous elements)
- Providing warnings of hazards and error
- Providing fail safe features
- Discouraging careless action in tasks that require vigilance

(6) Low Physical Effort: The design can be used efficiently and comfortably, and with a minimum of fatigue.

- Allowing the user to maintain a neutral body position
- Using reasonable operating forces
- Minimizing repetitive actions
- Minimizing sustained physical effort

(7) Size and Space for Approach and Use: Appropriate size and space is provided for approach, reach, manipulation and use, regardless of user's body size, posture or mobility.

- Providing a clear line of sight to important elements for any seated or standing user
- Making reach to all components comfortable for any seated or standing user
- Accommodating variations in hand and grip size
- Providing adequate space for the use of assistive devices or personal assistance

A COMPLETE SET OF CONSTRUCTION DOCUMENTS TYPICALLY CONSISTS OF THE FOLLOWING:

- Construction Specifications (or the "project manual") outline the materials and methods to be used. The "specs" provide the contractor with everything from manufacturers' and model numbers for equipment to color numbers and finishes for paint. The drawings and specifications jointly form the "contract documents" to which the contractor will refer when preparing his or her bid.
- Working Drawings are the large floor plans, elevations, sections and details that cover each and every aspect of the building. They provide dimensions, materials, layouts and in some cases, construction phasing. The working drawings include architectural, structural, mechanical, electrical, plumbing, civil, landscape, interior design, and other specialty area drawings.
- Bidding Requirements include a specific invitation to general building contractors (GCs) to bid on the project, advertisement information, informational instructions for bidders, bid forms, and other miscellaneous information.
- Addenda (or additions) to any of these documents issued by the architect during or after the bidding and/or negotiation process.

PRE-CONSTRUCTION ACTIVITIES

Upon completion of the project design (discussed in the previous section), major activities that must take place prior to beginning the construction process include: site acquisition and control, secured project financing, third party approvals, and furniture and equipment planning. These activities do not occur sequentially. Rather, they are a series of iterative processes that, when successfully completed, enable the actual construction process to commence.

Site Acquisition and Control

Acquiring the site and obtaining site control is a key benchmark in the development process. Why? Most financing sources will not be able to act upon your request until you have acquired "site control." Thus, delays in obtaining site control could adversely affect the project's financing and impede the construction schedule.

Site control is typically evidenced by one of the following: an executed sales contract, a letter of intent (which is often accompanied by a small deposit toward a future lease or purchase), a signed lease, or any other legally-binding agreement of that type. Three important steps to successfully acquiring site control are (assuming a site purchase, not a lease): (1) obtaining a **title report** (and **title insurance**) from a **title company**, (2) surveying the property, and (3) conducting a Phase I Environmental Assessment on the property. In most cases, your lender will be actively involved in the completion of these activities, as they will be required before a loan can be finalized. Your architect or civil engineer can also assist in securing a survey.

A title company runs the title report and also provides title insurance to you, the property owner. The title reports details who presently owns the site, and what type of encumbrances (if any) are placed on the property. Typical encumbrances include mortgages, mechanic's liens, easements, rights of way, unpaid taxes, and other property use restrictions. This report is important because it is provided by an independent third party which verifies and supplements information that the seller provides about the property. Title insurance provides you with **"clear title"** to (or ownership of) the property and protects you against present and future ownership claims by other parties.

The property survey shows its exact legal boundaries, the location of all utilities, easements and rights of way. A topographic survey will

illustrate the slopes and other physical features of your site. In preparing the final building design, your architect and engineers will rely upon this information. If you are using outside financing for your project, your lender will require the title report, title insurance, and a copy of the property survey prior to loan closing. The title company will require a copy of the survey, as well, for preparation of the title report.

Obtaining Project Financing

Prior to commencing actual construction, all project financing must be in place. But, what exactly is meant by "in place"? Surely, you don't want to incur financing costs if the funds are not yet needed. But while every dollar may not be immediately available (or even necessary), at this stage, all sources of financing should be identified and supported by formal funding commitments.

Obviously, if you are financing construction, you must have the construction loan closed. However, more often than not, obtaining a financing commitment is contingent upon (or triggered by) another event. For example, in the case of your construction loan, a construction lender will have little to no interest in your project unless you produce a long-term, permanent mortgage finance commitment. Conversely, a permanent lender wants assurances that you have the resources to complete the project, and more importantly, that you will be able to competently manage the facility and repay the loan over the long term. It should be noted that many banks offer both construction and permanent financing for a single project. In these instances, the construction loan converts to a permanent mortgage at construction completion.

As noted earlier, the events leading up to actual construction are not necessarily sequential. More than likely, your team will be working on multiple fronts simultaneously, including identifying sources of funding to pay for certain predevelopment costs, exploring permanent financing options such as a conventional mortgage, or tax-exempt bonds, and identifying potential construction lenders.

One very common approach is to secure the permanent financing first, and use that commitment to attract the interest of a construction lender or to demonstrate to a seller that you have the resources to obtain site control. Although the permanent financing commitment may be "soft" (e.g., contain contingencies to be met prior to making a firm commitment), it is often what is needed to get other critical players on board.

Obtaining a commitment from a construction lender and closing the loan is usually the "trigger" that enables you to commence construction. Your construction lender will require numerous assurances, representations, and reviews of documents to decrease the risk during the construction phase. Your permanent lender will also require many of these same documents and require that those documents be assigned to them. This process normally runs parallel to the design and pre-construction period. Chapter 6 provides a detailed description of types of financing and an in-depth look at working with a lender. A word of caution: do not begin any construction prior to closing your loan, in order to avoid lien-related issues.

Obtaining Third Party Approvals

If your project were subject only to the demands of your development team, you might be better able to control scheduling. But this is rarely the case. Depending upon the project's complexity, as well as building practices unique to your area, you will need to obtain approvals for your project from numerous third party entities. These approvals may impede the progress of your project, or even require you to consider alternative designs.

Consequently, it is important to educate yourself very early in the process as to what types of approvals you will need to obtain, and the time it generally takes to obtain those approvals. Typically, there are at least three major entities that will review your project:

Planning and Zoning The **zoning** authority (or board) regulates property use, and is usually operated at a municipal or county level. The three most common zoning designations are residential, commercial, and industrial, each of which has a unique set of requirements. Local planning and zoning codes typically regulate lot size, site layout, building height restrictions, land use, setbacks (from the street and from adjacent properties), parking, historical landmarks, landscaping, open spaces, and the ratio of building size to lot/site size.

Planning and zoning boards often have concerns about how a project will affect public space or the "look and feel" of the neighborhood. Some larger cities require a review of the design, in addition to planning and zoning, to consider the project's aesthetic appeal. Thus, there are usually questions about a building's projected impact on traffic patterns, noise and air pollution levels, and site drainage systems. These matters may need to be addressed by environmental impact studies, which will increase project costs, and must be properly budgeted for ahead of time. Sometimes, there is neighborhood opposition to your project ("Nimbyism," the "Not In My Backyard" mentality). Community concerns, if any, are most often channeled through a local planning or zoning board. In these instances, the charter school's board may need to develop a plan to counter local community and/or political concerns.

Undoubtedly, you will need a building permit to construct your project and/or a demolition permit if you are knocking down a building to replace it. Depending upon the nature of your project, you may also need a zoning **variance** or other special use permit, usually obtained at formal public hearings.

Building and Life Safety Codes Building and life safety **codes** regulate structural and foundation matters, construction materials, fireproofing, fire exits, heating, ventilation and air conditioning systems (HVAC), plumbing fixtures and installation, and electrical installation. Typically, there are minimum standards for methods of construction, life safety, accessibility, emergency lighting, services and emergency vehicle access, and parking, and requirements for special needs populations such as disabled persons. Your project must comply with local building codes in order to receive a certificate of occupancy (CO, or C of O, also referred to as a Use and Occupancy permit, or U & O), so that you can legally occupy and operate the facility.

Health This commission (or authority) regulates health and safety issues and may be established by local, state, and/or federal regulatory authorities. Depending upon the size and nature of your project, you may require varying levels of approvals if, for example, you intend to provide food services on site or if your school plans to partner with any health and human services organizations to offer health-related services on-site.

In all three instances, it may be desirable to retain specialized consultants such as a zoning attorney or a permit expeditor, to streamline or fast track the approval process.

FURNITURE, FIXTURES AND EQUIPMENT PLANNING

Even though the project's major focus at this point is on starting construction, you must also seriously consider what goes into the building once it's completed. Therefore, it is important to make firm arrangements for the school's furniture, fixtures, and equipment (FF&E) needs. Typically, any movable or attachable item, such as furniture, office equipment, computers, and telephone and security systems, falls under this category.

These items often must be ordered many months in advance of the desired delivery date. Rigorous planning, paying attention to details, and closely coordinating with your general contractor will go a long way to ensuring that you will be ready to commence operations once construction is completed. Signage (both interior and exterior) may or may not be included in the architect's and general contractor's scopes of work, and if not, must be designed and procured.

The role of the project manager will be especially important, since many tasks related to FF&E planning fall outside the purview of the development team's major players. For example, assuming you use a standard architectural services contract, your architect will not be involved in furniture selection, unless this task is contracted for separately. Similarly, an electrical engineer will design the locations of telephone and cable connections, but he or she does not typically get involved in the myriad decisions that must be made regarding the selection of a particular telephone system or computer network, or its specifications.

So, you must rely on your project manager to identify professionals who can help you make decisions, and who will also manage the planning process. For example, you may draw upon the expertise of vendors who are often more than willing to visit your site, demonstrate a particular system's features, and make recommendations about type, size and specifications in the context of current and anticipated growth. You may also consider additional consultants to your team such as an interior designer who can advise you on furniture selection and finishes.

Also, purchases must be considered with accessibility issues in mind. Examples of accessible furniture and equipment include desks, tables and wheelchair accessible computers. Consider the possibility of including disabled stakeholders in your planning.

FF&E planning must be closely coordinated with the project's overall construction schedule. For example, you don't want the cables for your security system installed right after the building's brand new ceiling tiles have been put up. And, you

STRATEGIES FOR OBTAINING THIRD PARTY APPROVALS

- Get educated about local charter school facilities in your area and learn from their experiences.
- Start early and allow for sufficient time during the development process.
- Identify regulators at all levels who will approve the proposed project and plans.
- Know what is important to regulators and how to address their concerns.
- Pick your battles—give in on items that are not critical to the project and use "muscle" on issues that are.
- Build a broad coalition of support for your project.
- Use consultants wisely: your architect, GC, or project manager should be intimately involved in the process. Consider hiring a "permit expeditor" to fast track certain key third party approvals such as building permits or zoning variances.

also don't want the furniture delivered before the building is completed and has its final cleaning. Consequently, these issues require close coordination with your general contractor.

Upon completion of this phase, your project is well underway. You have drawings that you can share with your school community, allowing them to visualize their new school. In addition, your funding should be finalized and you will have jumped through many of the required hoops you must go through in order to successfully navigate your way through the development process. Let the construction begin!

ADDITIONAL RESOURCES

1. The American Institute of Architects, www.aia.org (professional membership organization for architects)
2. The Association for Community Design, www.communitydesign.org (international network for planning and design professionals working in communities)
3. The Design Advisor, www.designadvisor.org (primarily for affordable housing with helpful tips and checklists)
4. *The School Design Primer: A How-To Manual for the 21st Century,* The Little Institute for School Facilities Research, Little and Associates Architects (1996)

Financing the Project

CHAPTER 6

More than likely, you will not have 100% of your project's capital needs in cash reserves and will need to look elsewhere to meet the project's total budget requirements. This section describes how to access facilities funding. Typically, these funding sources are supplemented by funds that your charter school has reserved for the project, and/or fundraises. Most of the section focuses on debt financing, but also included are ideas for grants and capital campaigns.

INTRODUCTION TO FINANCING

Often charter school facility projects find that they have a financing gap, which can only be met by borrowed money. In fact, financially savvy charter schools agree that it often makes good business sense to fund a portion of the total project budget by debt, for the following reasons:

- Leveraging dollars frees up cash for other operational needs;
- Bridging a long-term capital campaign with borrowed funds allows the school to complete its capital project more quickly and the completed building can be a showcase for capital campaign events;
- Borrowing money (for the ultimate purpose of buying a facility) may be less expensive than lease payments and has the added advantage of building equity;
- Repaying a loan encourages financial discipline and may improve cash flow management; and
- Establishing a banking relationship may lead to additional opportunities, such as short term working capital lines of credit or access to enhanced banking services.

When approaching an organization for a loan, keep in mind that lenders are risk averse: their primary objective is to make sure that the loan is repaid as agreed. But depending upon the type of financing, risk is evaluated differently.

For example, construction lenders have a short-term focus and a unique set of skills that enable them to closely monitor the construction process: a short period with relatively high risk due to scheduling delays, possible cost overruns, potential difficulties with subcontractors and so forth. The decision to lend on a particular construction project is normally based on having permanent "take-out" financing to repay the loan at project completion, except if the construction lender and permanent lender are one and the same. Regardless, there are usually a number of criteria considered in the decision-making process for a construction loan, including the strength and effectiveness of the project team, and the quality of the construction documents (such as the GC contract).

In sharp contrast, a permanent lender is entering into a long-term relationship; repayment of the loan will be dependent on the ability of the

charter school to remain open as an operating business and make loan payments. Consequently, the permanent lender is looking at the charter school's operations, market environment, growth potential, and other factors to ensure that the charter school will be able to comfortably repay the loan over the long term. When assessing risk, lenders typically follow the Five C's of Lending described below.

These Five C's are used in one form or another by most lenders in an attempt to measure risk of default for any possible loan. Even those lenders who specialize in charter school lending will evaluate most of these points when making a loan decision. From a lender's perspective, the educational aspect of charter schools is but one of many themes to be evaluated. As you begin to put together a loan package and think about approaching lenders, keep the spirit of this list in mind. Different organizations and people will interpret the Five C's in a variety of ways, but all lenders (as well as grantors and foundations) will have questions about your organization and future plans. These "C's" can help you look at your own

THE FIVE "C'S" OF LENDING

Credit

- What is the charter school's track record with other creditors (e.g., banks, credit unions, vendors)?
- What is the charter school's historic and current financial performance (e.g., net income, percentage of fundraising to all income) and financial condition (net worth, leverage, liquidity)?
- What is the charter school's previous experience with managing debt?

Competition

- Who are the charter school's competitors (how effective are the local public schools)?
- Who are the charter school's partners?
- What are the charter school's student achievement and enrollment numbers?
- Has the charter school undertaken a market analysis?
- What is the school's relationship with its authorizer? And what type of oversight and assistance is provided?

Capacity (or, Character)

- Describe the charter school's key managers and staff (e.g., experience, qualifications, tenure, turnover, depth in management team).
- What is the charter school's governance structure (e.g., Board of Directors, committee structure, member involvement)? How are parents involved?
- What is the charter school's plan for managing the capital project (review qualifications of all development team members)?
- Does the charter school have the capacity to manage the development process and adequately oversee daily operations?

Cash Flow

- Cash is the charter school's primary source of repayment? Review the project budget and financial projections (balance sheet, income statement, cash flow with supporting assumptions) to determine if cash is available for repayment and if organization is operating at break-even or better.
- What is the projected debt service capacity (how much debt can the charter school handle, given its revenues and expenses)?

Collateral

- In the event of a loan default, is there adequate **collateral** to repay the loan?
- Are there any obstacles to properly perfecting the lender's **security interest** (e.g., if charter school does not have **clear title** to property)?

RISK	INDICATORS	WAYS TO MITIGATE
Organizational Risk	Charter schools can be start-up organizations and most often have a short track record.	■ Demonstrate depth of management and board experience; sound financial management policies; enrollment or waiting list.
Renewal Risk	Charter schools are authorized for a finite term.	■ Explain your local process and plans for receiving, keeping and renewing your charter. ■ Demonstrate that you are on-track to meet the requirements of charter renewal. ■ Demonstrate ability to repay loan before charter expires.
Construction Risk	Charter schools often lack experience with real estate development. There is usually a short timeframe before school opens.	■ Hire experienced project manager and/or architect. ■ Provide detailed project budget with solid cost estimates and ample contingency. ■ Have an alternative space available in case construction is delayed and school needs to open.
Repayment Risk	Loan payments may be delayed because of cash-flow problems, enrollment may not match projections and result in decreased revenues and possible operating losses.	■ Demonstrate solid enrollment, waiting lists. ■ Show detailed cash flow projections under multiple scenarios (worst case, best case). ■ Show financial statements for the most recent period (ideally show surpluses and positive fund balance). ■ Demonstrate ability to make debt service payments without depleting **cash reserves**. ■ Some states allow for per pupil payments to go directly to a lender or other third party.
Collateral Risk	In the case of a default, can the property be liquidated (sold) – or can a new tenant be found quickly?	■ Demonstrate the value of the property through an appraisal by a certified appraiser. ■ Make an equity contribution to the project – (e.g., lender funds 70% of the project, the charter school raises the remaining 30%). ■ Design the construction/renovation so facility could be converted to non-school use. ■ Provide information on how the property could be used for other purposes if liquidated (e.g., other schools could use/purchase). ■ Describe a property management plan and funds to be set aside for repairs to the building to maintain value.
Appropriation Risk	The state legislature may decide to eliminate charter schools, or make conditions for charters less favorable.	■ Document political support for charter law. ■ Explain the terms of your current charter and how the per pupil allocation is disbursed. ■ Provide cash flow proforma showing loan repayment before charter expires.

organization and be prepared to discuss your strengths and weaknesses.

Lenders often perceive that financing charter schools poses higher-than-usual credit risks (due to the "experimental nature" of charter schools; uncertainty about the potential of the school to attract and maintain sufficient enrollment; and the possibility of being denied charter renewal by an authorizer, resulting in a loss of operating funding). The following chart summarizes some of the potential risks a lender might find in a charter school loan request and how these can be addressed.

LOAN TYPES

There are three main categories of loans for facilities. Before you approach a financial institution, have an idea of what you want. Lenders may have additional suggestions, based on their organization's flexibility. For the most part, these loan types are for specific purposes, so know what you need and ask for it.

All loans will have four basic structural elements you can use when comparing terms from lenders: interest rate, fees, term and amortization. Loan term is simply the length of the loan. A five-year loan means you will be making payments for five years. Amortization affects the amount your payments (normally monthly) will be. For example, you borrow $100,000 with a 5-year term and a 5-year amortization, with no interest. Your annual payment will be $20,000. If instead your amortization is 10 years, your annual payment will be $10,000 but at the end of 5 years, you will still owe $50,000. Adding interest to these calculations changes the numbers slightly, but these numbers should highlight the importance of amortization.

Sometimes lenders will charge a penalty if you repay your loan in total before the term ends. Check your loan documents before executing them to see if there is a **prepayment** penalty and how much it is. If you anticipate refinancing or prepaying the loan, discuss options with your lender during the application and **underwriting** process. There may be more than one option available to you.

LOAN FEES

Be prepared to pay several types of fees and remember to budget for these costs associated with the loan process. A list of common costs follows:

Application or Underwriting fee – Sometimes lenders will charge an application fee that must accompany the original loan request. It normally ranges from $100 to $1,000 and can be credited toward the origination fee if the loan is approved. This fee covers the upfront work lending institutions complete before a loan is finished.

Origination or Commitment fee – Covers the costs of the lender reviewing the loan request. Normally 1-2% of the loan amount. A 1% origination fee on a $500,000 loan would be $5,000. This amount may be negotiable and is collected when the loan closes. A partial payment may be due when you accept a **commitment letter.** Normally it is non-refundable meaning the lender will keep the fee, if the loan closes or not.

Legal Fees and Closing Costs – Lenders have additional fees for the preparation of the legal documents and other costs of executing the loan. These vary widely depending on the lender and type of loan. Be sure to ask about them up-front. These fees will also vary depending upon the complexity of the deal (several property owners for example) and the time spent negotiating the legal documents.

LOAN TYPE	USE OF LOAN FUNDS	TYPICAL LOAN TERMS	COMMENTS
Construction loan	Pay for costs to construct a building or renovate an existing structure.	Interest only during the construction. Full principal repayment is required at the end of the construction period (usually 6-18 months). Lender may control disbursements to ensure construction is proceeding as agreed.	Will need a permanent loan from this or another lender.
Permanent loan or mortgage loan	Purchase land or buildings, or finance a project at the end of the construction period.	Charter school may have to provide up to 30% equity (i.e., the loan may be limited to 70% of the value of the property). Usually principal and interest payments made monthly.	Often combined with a construction loan. Term of loan is often shorter than amortization period – requiring a balloon payment or **refinancing** at end of term of loan.
Leasehold Improvement loan (LHI)	Fund the costs of renovating a leased facility.	Loan term usually will not exceed lease term. Borrower will need to obtain consent from Landlord. Normally principal and interest payments made monthly.	This type of financing can be difficult to obtain. Many lenders shy away from LHI loans because there is little **collateral** available as compared to mortgage loans which are "backed" by the real estate.
Working Capital – not for facilities financing	Cover short-term cash flow mismatches (late per pupil payments, for example).	Usually short-term (6-12 months) and interest-only payments. Balloon of outstanding principal and interest due at maturity.	Not for mortgage or other long-term financing uses. (This type of loan is not covered in this resource guide, but schools may want to explore this option.)

Borrowers normally pay for the legal costs of the lender's counsel and for the borrower's own counsel. Borrowers are also responsible for the costs of appraisals and environmental surveys.

INTEREST

This is the amount charged for borrowing funds. The interest rate is usually quoted in an annual percentage rate. For example, to borrow $100,000 at an interest rate of 8% would cost a charter school $8,000 in interest for one year. This amount may vary slightly, depending on the schedule used to calculate it – some lenders assume 30 days per month, some use actual days per month. The difference should be slight; you can ask your lender for an amortization table to see exact amounts before loan closing.

Interest rates also can be fixed (they won't vary over the life of the loan) or variable. Variable rate loans change weekly, monthly or annually, though there may be limits on how much your rate can change from year to year and over the life of the loan.

Both fixed and variable interest rates are typically tied to some underlying interest rate (like the prime rate or a Treasury bond rate) plus an additional amount. Fixed rates are generally higher – you pay for the certainty of a fixed cost over the course of repayment. It is important to note that most interest rates aren't settled on until the **closing day**, so there is a possibility of rate changes between term sheet and closing.

All of a loan's costs – indeed all of its terms – are potentially negotiable with the lender. This is especially true if you have more than one lender interested in providing financing. Use the Financing Worksheet (Appendix F) to compare sources of financing, their terms and conditions.

TAX-EXEMPT BOND FINANCING

For strong charter schools with solid credit and a clear ability to service debt over a long period of time, tax-exempt bonds can be an alternative to conventional financing. These bonds are a form of long-term debt financing used for institutional facilities construction (e.g., schools, hospitals, museums). Typically, they are authorized by federal, state or municipal law and issued by a qualified agency such as a local school district or state agency. Private and corporate investors that are seeking tax-exempt income then purchase the bonds through a registered securities **broker** or dealer.

As a general rule, tax-exempt bonds offer lower interest rates and often provide longer terms than comparable conventional financing. Interest rates are typically lower because investors are willing to accept a lesser rate of return in exchange for not paying taxes on the interest income.

On the other hand, tax-exempt bond financing can also require significant reporting requirements and restrictive **covenants** that may be considered overly burdensome. Completing a bond transaction requires multiple parties. Due to additional legal and consultant fees and loan **reserves** funded up-front (all paid for by the borrower), out-of-pocket expenses are higher than conventional financing.

Tax-exempt bonds may be rated by one of the three major credit rating agencies (Moody's, Standard & Poor's or Fitch). The rating quality will determine the bond's price and other factors that affect the terms of the ultimate sale to the investor community. Bonds without a rating will pay a premium via a higher interest rate.

Unless the charter school is particularly strong, the tax-exempt bonds will have to be issued on a credit-enhanced basis. In other words, the bondholders may require that the bonds have an additional source of security by a third party source of credit support, such as a letter of credit. Credit enhancement can add additional costs to the transaction.

Bond underwriters are going to look for a strong demonstrated ability to support the tax-exempt debt. Though the closing process for bonds differs significantly from that of conventional financing, bond underwriting will follow the general outlines discussed in this guide. Whatever the financing, lenders will be interested in the school's ability to repay debt and will measure risk by looking at financial and management information, school data and **collateral** value. In addition, rating agencies and bond underwriters are looking at the "quality" of charter schools as that relates to student achievement and No Child Left Behind requirements.

TYPICAL PARTIES TO A TAX-EXEMPT BOND TRANSACTION

- **Borrower** The charter school
- **Borrower's Legal Counsel** The borrower's legal counsel protects the interests of the charter school during negotiation of business terms and provides certain legal opinions required at **bond closing.**
- **Issuing Authority** Tax-exempt bonds are issued by a state, local government unit, government agency, or public authority on behalf of the borrower. The issuing authority serves as a "conduit" for the bonds to the borrower.
- **Issuer's Legal Counsel** The issuer's legal counsel represents the interests of the issuing authority at bond closing, performing duties such as preparing the bond purchase agreement, reviewing and preparing the official statement, reviewing various legal opinions from other parties, and qualifying the bonds for sale under the particular state's securities laws.
- **Underwriter** The underwriter is responsible for structuring the financing, negotiating the business terms, preparing the offering statement (to be circulated to potential buyers of the bonds), arranging the credit enhancement (if needed), organizing and managing the marketing and selling of the bonds, negotiating the terms of the bond sales, and arranging for the delivery of the bonds and payment of the purchase prices at bond closing.
- **Underwriter's Legal Counsel** The underwriter's counsel represents the underwriter's interests during and at the close of the transaction.
- **Credit Enhancer (bank or bond insurer)** A commercial bank or a bond insurance company that provides a credit enhancement (such as a letter of credit) to the bond.
- **Credit Enhancer's Legal Counsel** Represents the interests of the bank or bond insurance agency.
- **Bond Trustee** The trustee holds, invests, and administers the bond funds for the particular bond issue. The trustee also serves as bond registrar, transfer agent and paying agent for the bonds, and acts on behalf of the bondholders to ensure that the borrower meets the terms of the covenants contained in the bond documents. In the event of a bond default, the trustee pursues all legal remedies permitted in the bond documents.
- **Bond Legal Counsel** The bond's legal counsel writes the majority of the financing documents and provides opinions on the legality and tax-exempt nature of the bond issue, as well as the underlying security **(collateral)** for the issue.
- **Financial Auditor** The auditor prepares a summary of the charter school's historical audits for inclusion in the offering statements. The auditor also typically prepares comparative year-to-date statements for the charter school. In addition, the auditor provides a "comfort letter" at the time of the bond sale (and subsequent closing) that addresses the financial information provided in the official statement.

In short, tax-exempt **bond** financing is often complex and costly, but favorable interest rates and longer terms may be more advantageous when compared to conventional financing, particularly as project sizes exceed $5 million or so. The first step in obtaining bond financing is to hire a **broker** who will walk you through the process of rating, attracting investors and issuing the bonds.

NEW MARKETS TAX CREDITS

Another attractive type of financing for large charter school projects are New Markets Tax Credits (NMTC). This is a federal tax credit program. The NMTC program was created to stimulate increased investment and economic growth in low-income communities.

The tax credits are allocated to eligible organizations by the Treasury Department via a competitive application process. These organizations, given the federal designation of CDE (Community Development Entities) then use the tax credit according to their application plan – several awardees have particular programs using NMTC for charter schools. Other organizations that received NMTC are using them for housing or commercial projects.

Regardless of the type of project, NMTC projects must be in eligible locations and involve eligible business. Location eligibility is measured at the census tract level – the tract must be low-income as measured by poverty rate or median family income. Eligible businesses can generally be described as those doing the majority of their business in or with the local low-income community. Nonprofit charter schools are often acceptable entities.

The CDE receives the tax credit allocation. These tax credits are then provided to investors in exchange for investments (cash) from the investor. The CDE then uses this money to make loans to businesses and projects located in low-income communities.

Projects that use NMTC for funding may be able to receive lower interest rates than conventional financing. The tax credits are allocated to the investor over a 7-year period, and this is the term of almost of NMTC loans. Some amortization of the principal may be possible, over a long-term (25 – 30 years) but many projects being financed by NMTC are using a 7-year interest-only structure. At the end of the term, the loan can be refinanced or paid off.

The process to obtain approval from a lender for this type of financing is similar to bond and conventional financing. Risk measurement is probably most similar to community development lenders (as these are the majority of organizations who received a NMTC allocation specifically for charter school financing). To get started, contact an organization which received an allocation. Lists can be found at the CDFI Fund (see Additional Resources for website link).

	CONVENTIONAL	TAX-EXEMPT BONDS	NEW MARKETS TAX CREDITS
Interest rate	Market	Below-market (below conventional)	Probably below-market
Terms	Shorter (5-10 years)	Long terms of 20–30 years	Usually 7 years
Amortiza-tion	Short to long (range of 5–25 years)	Long (20–30 years)	Long only (25 years or more)
Upkeep	Standard reporting and covenant requirements	More involved annual reporting. Annual fees	Restrictions on location and type of business
Other	May be able to leverage existing bank relationship	Significant **collateral** restrictions with little ability to change	Relatively new program (since 2004) with many organizations interested in charters

CREATIVE FINANCING USING A COMBINATION OF BONDS & PRIVATE FINANCING

El Colegio Charter School Minneapolis, MN

The founders of El Colegio Charter School in Minneapolis felt that it was important to build equity in their community by buying instead of renting a school facility; however, Minnesota charter law precludes schools from owning facilities. A separate non-profit organization was established for the sole purpose of purchasing, renovating, and leasing space to El Colegio (the ECCS Building Company). A 21,000 square foot site was purchased and updated to serve the needs of the school and to meet code requirements. Funding for the project was secured through 2000 series taxable and nontaxable lease revenue bonds from the city of Minneapolis ($650,000 were nontaxable and $1,865,000 were taxable).

The market in 2000 was not receptive to 30-year term bonds, particularly for charter schools, so initial bonds were for 3-years, ending December 2003, when refinancing became necessary. After reviewing several options, the ECCS Building Company determined that the high costs of another bond issue precluded them from seeking that option again. Instead, they refinanced via a $2.3 million loan from the Raza Development Fund (RDF is the largest Latino CDFI in the United States and a support corporation of the National Council of La Raza). The ECCS Building Company needed to come up with the remaining 10% of equity. In the end, financing through RDF resulted in an annual savings of over $40,000 compared with the bond financing.

BONDS FOR CHARTER SCHOOLS

The Internal Revenue Service wrote a document in 2003 on Qualified Public Education Facility Bonds—a type of tax-exempt facility bond created under section 422 of the Economic Growth and Tax Relief Reconciliation Act of 2001. Bond proceeds are loaned to a private, for-profit corporation which owns the school facility and leases it to a public school. At the end of the lease term, the schools assume ownership of the school. For more on this program see the ABC's of School Funding by Karen Skinder www.irs.gov/pub/irs-tege/teb1b03.pdf.

TYPES OF LENDING INSTITUTIONS

Various sources of loans exist, each with its own criteria, cost structure and application process. A sample **loan application** from NCBDC is included as Appendix G for your reference. Every lender will have its own process and application requirements. While the number of lenders familiar with charter schools has increased over the last few years, many will need you to provide a basic description of how charter schools are organized and funded. The following chart identifies various types of lenders, where to find them, and includes comments related to dealing with each type.

COMMUNITY DEVELOPMENT LENDERS

Community development lenders (CD lenders) are specialized financial institutions that provide a wide range of financial services and technical assistance, usually targeted to low-income households and businesses located in distressed urban and rural communities. Such organizations usually work in market niches that are underserved by traditional financial institutions. In many market segments, CD lenders are pioneers -- lending to perceived

TYPE OF LENDER	WHERE TO FIND THEM	COMMENTS
Large regional and national commercial banks	Should have a presence in the community. Talk to a loan officer, perhaps in the non-profit, small business or real estate department.	If you serve a low-income community, your loan may help the bank meet its Community Reinvestment Act goals. Will probably be interested in your deposit accounts (such as business checking) and may provide better terms because of this business.
Small community banks	Talk to neighborhood banks near your proposed facility. Ask board members and parents where they bank. These banks may not have a non-profit lending department.	May have maximum loan size. May have lower minimum loan size requirements and more flexible terms than commercial banks. Will probably be interested in your deposit accounts (such as business checking) and may provide better terms because of this business.
Community development lenders (CD lenders)	CD lenders try to revitalize communities by providing access to credit to organizations that are not otherwise eligible for loans. Most CD lenders are mission-based nonprofits who are limited to working with special populations. Look at The Charter Coalition and the CDFI Fund for a list of organizations who lend to charter schools. May be more familiar with charter schools.	Several CD lenders have dedicated loan pools for charter schools and may have more flexible lending criteria. There may be local and national community development lenders who serve your area.
Finance Companies	See your local charter school association or resource center for private financing companies in your area. There are some national finance companies as well.	Compare rates, as private finance companies may charge a premium over other sources or financing. Get references from schools who may have worked with these companies.
Seller Financing	If you have found a facility for sale, ask the seller if they are interested in taking back a mortgage. The charter school would make loan payments to the seller. Often the seller will only finance a percentage so you may still need conventional financing for the remainder.	Get a lawyer and accountant to review any seller-financed project. Beware of sellers who want to charge exorbitant rates – see if you can get a bank loan instead. If not, pay close attention to the fine print of any agreement and make sure your rights are protected.

"high risk" businesses such as charter schools and childcare facilities, health care facilities, and to small micro businesses and for affordable housing. CD lenders have successfully broken down credit barriers, and demonstrated the creditworthiness of community-based businesses to the investor community. Not all community development financial organizations are involved in lending to non-profits such as charter schools. Other types of activities include credit unions, working with small businesses and working to develop affordable housing.

Charter school managers should think of CD lenders as an excellent resource for debt financing for at least three reasons:

- Many CD lenders have a dedicated interest in charter schools and have committed loan pools to funding charter school facilities with knowledge of charter schools and the market;
- CD lenders can be considered "flexible" sources of financing and will often structure a loan with a longer amortization schedule or an interest-only period. They also frequently accept non-traditional forms of **collateral** and are apt to accept real estate located in economically distressed areas. It should be noted that due to their relatively small capital base, some may be limited in the size of loans that they can extend; and,
- Some may offer lower interest rates, when a portion of their loan capital comes from non-traditional sources (e.g., religious investors, government loans, social investors). Consequently, they may be in a position to pass those savings on to you, the borrower. This is not always the case, however. Sometimes CD lenders use the risk capital from traditional sources (federal government and large financial institutions) or from non-traditional sources to simply make available financing to charter schools that would otherwise not exist.

Beyond these differences, borrowing from a community development lender is much like borrowing from a conventional bank. So this section on financing applies fully.

See Additional Resources at the end of this chapter for further information about contacting CD Lenders in your community.

THE LOAN PROCESS

Lenders suggest that you begin the loan process as soon as you have a sense of what type and size of site you are looking for, and what resources you have to commit to the project. Resources include people (project management team) and funds the schools can contribute to the project. It may well be appropriate to contact potential lenders before you have a final site identified. The loan process will begin during the site selection phase and continue throughout the development process (and even beyond that, as your relationship with your lender extends for the life of your loan). You actually started the financing process when you developed your preliminary budget.

How to apply for a loan:

1. **Get Prepared.** Lenders will ask for specific information when you call them. It is best to have this information ready before calling. Lenders will want a brief description of your project with certain specific details:
   - audited financial statements for last three years;
   - 3-5 year budget projections, including impact of construction/renovation project;
   - business plan, detailing current state of school and future plans;
   - results from needs assessment and feasibility study (e.g., preliminary ideas for site, space requirements);

- preliminary project costs and sources of funds; and,
- initial site ideas.

2. **Call Lender** to discuss your loan requirements. Generally, you will be asked to submit information such as that listed above. Some lenders will ask for a full application at this point.

   A lending institution's internal process will involve an initial review of your materials. There are three possible responses at this point: not interested in your project; need more information (typically site selection, updated financials or project cost finalization); or, interested.

3. **Receive Term Sheet from Lender.** If a lender would like to provide financing for your project, he or she will typically prepare a term sheet or proposal letter. This document is almost always non-binding, meaning the institution is expressing its interest but is not legally committing itself to lend money. The term sheet typically outlines the structure of the loan, as listed below:

   - *loan amount:* may be a range of values
   - *estimated loan to value amount:* normally conditional on the appraisal and listed as a percentage
   - *use of loan proceeds:* limited to specific uses and **collateral**
   - *term and amortization of loan:* as noted above, may not match
   - *repayment:* may allow an interest-only period, such as for construction, before regular payments (principal and interest) would begin
   - *interest rate:* fixed or variable, details on which "prevailing" interest rate the lender uses plus the amount over that rate
   - *fees:* underwriting/application fee, commitment fee, legal fees
   - *reporting requirements:* may include submission requirements for audited and quarterly/monthly financial statements, enrollment information, student achievement scores and reports to and from authorizers – lenders will use these to understand changes happening at your school
   - *covenants:* financial measures to be met by your organization, such as debt service coverage, liquidity and net assets
   - *conditions precedent to closing:* items specific to your organization and particular deal, such as revised project costs, enrollment hurdles, documentation about other money required for the project (e.g., grants) and **zoning** changes – these actions or items must be completed before the lender will fund a loan
   - *expiration date:* requirement that borrowers sign and return the term sheet by a specific date

Read your term sheets carefully, as it contains important details the lender is expecting will be used in the final loan. There is typically a list or items or actions to be completed before the lender will officially commit to the loan. Approach your lender with any questions you have about specific items, as some items may be negotiable – and now is the time to be working through your expectations and wish list. See Appendix F for the Financing Worksheet to compare terms offered by different lenders.

4. **Complete full loan application with Lender.** The lender will normally provide you with the loan application (see Appendix G for sample). The application process normally involves compiling additional materials for the lender. These materials will be used in underwriting (or "due diligence") by the lender. This involves a detailed look at the charter school (management, financial performance and education outcomes) and the project (affordability). The underwriting process is how a final decision is made about the loan by the lending institution.

5. **Maintain regular communication** with the lender during due diligence. As the lender reviews your loan application and supporting documents, it is important to touch base with them regularly and provide any additional materials to the lender as they become available, such as the following examples:
   - finalized project budget;
   - purchase, lease, or other official site contracts;
   - final architectural designs; and,
   - contract with general contract.

   The lender also will be busy during this phase of the loan process. They will take care of the appraisal and environmental reports. Upon completion of their due diligence, the lender will have completed a loan write-up that includes such items as an overview of your school, management structure, financials, and risks.

6. **Obtain Commitment Letter from Lender.** Upon successful completion of the loan process, you should expect to receive a final commitment letter from your lender, allowing you to officially commit to your facility project (e.g., close on the purchase, contract with a general contractor, etc.). The commitment letter looks similar to the term sheet but is more specific, and is a legal commitment by the lender to make a loan under the conditions specified.

   Again, read this document carefully. The commitment letter is basically an outline for the loan documents. If you agree to the commitment letter, many lenders will ask you to sign the letter and return it. Most lenders prefer there to be few changes in the loan structure from this point forward.

7. **Closing Process.** Once you receive a commitment letter from a lender/financing institution, the actual **closing day** (when money changes hands and perhaps you finally own the real estate in question) is anywhere from 30–90 days or more away. Lenders will now begin work on legal documents and review them internally. Lenders will also finalize due diligence with regards to the appraisal and appraised value of the project, the environmental report and title and lien searches. Your project may have other specific items to be completed before closing such as **zoning** permits or enrollment targets.

You should receive draft legal documents to review. These documents normally include a **Promissory Note** or Deed of Trust, a **Loan Agreement** and a Security Agreement. As noted above, you should have independent counsel review these documents. The closing date is normally set about a week ahead of time. Borrowers typically make arrangements to go to a title office to sign documents and finalize the transfer of money for fees and an initial disbursement of loan funds. Congratulations!

GRANT FUNDS AND FUNDRAISING

■ *Federal Grants*

Charter schools have used federal funds for facility projects, but these funds usually flow through state or local conduit government agencies. Check with your state and local governments about the following grant programs:

Start-Up funds. The U.S. Department of Education provides grants to states for charter schools in their first three years of operation. While these grants cannot be used for facilities, they do provide funding for other operational needs, thereby freeing up other funds that charter schools can thus dedicate to their facility needs. Each state distributes these funds in different ways – usually either a per pupil amount received by each school, or through a request for proposal (RFP) process. Your State department of education office should have more information.

Credit Enhancement. Managed by the United States Department of Education, the Credit Enhancement for Charter School Facilities program provides assistance to help charter schools meet their facility needs. Funds are provided on a competitive basis to public and nonprofit entities, and consortia of those entities, to leverage other funds and help charter schools obtain school facilities through such means as purchase, lease, and donation. Grant recipients may, among other things, guarantee and insure debt to finance charter school facilities; guarantee and insure leases; facilitate a charter school's facilities financing by identifying potential lending sources, encouraging private lending, and other similar activities; and establish charter school facility "incubator" housing that new charter schools may use until they can acquire a facility on their own.

Presently, organizations that have received funds through the credit enhancement program are located in 16 states, plus several national programs. For more information, see: www.ed.gov/programs/charterfacilities/awards.html.

■ *State and Local Grants*

Direct Funding for Charter School Facilities. As of January 2005, of the 41 states with charter school laws, 10 provide direct funding for charter school facilities (per pupil funding for facilities that is appropriated annually). Charter schools should contact their state department of education to learn more.

State programs for charter school facilities. Administered by the U.S. Department of Education, the purpose of the State Charter School Facilities Incentive Grant program is to assist charter schools with facility costs. This program provides Federal funds to states (via a competitive application process) to establish or enhance and administer per-pupil facilities aid programs. The program is intended to encourage states to develop and expand per-pupil facilities aid programs and to share in the costs associated with charter schools facilities funding.

There are currently four states that that have received funds through the incentive program: California, Washington, DC, Utah and Minnesota. For more information, see: www.ed.gov/programs/statecharter/awards.html. Each program has specific guidelines for application and awards.

Community Development Block Grant funds (CDBG). Federal funds distributed by states to revitalize communities. Contact your local county or city development office for more information.

Empowerment Zones/Enterprise Communities. Businesses in these communities may be eligible for grants, tax incentives and loans to create jobs and expand opportunities in the most economically distressed communities. This program is usually administered by city or state economic development offices. See www.ezec.gov for more information.

LOCAL GRANTS

Check with city and/or county governments to learn about local sources of grants. Your school may be eligible for funds based on the demographics of the students you serve, or because you are revitalizing the community through your facility project. Some schools have received small grants from local legislators when they have been able to demonstrate the positive impact of their school on a neighborhood. Legislators in some states, such as Pennsylvania, have made small grants to charter schools serving very low-income communities.

OTHER MEANS OF FUNDRAISING

The saying "money attracts money" is particularly fitting as it relates to fundraising in the non-profit sector. Lenders rarely provide 100% financing, and almost always expect to see equity in the project, as high as 35% of total project costs. Foundations and other philanthropic investors want to know who else has invested in your project and will often establish challenge grants that match funds raised from other sources. In short, prospective investors want to see what sources of money you already have in place, and usually no one wants to throw the first dollar into the hat. So, where do you start?

Private Foundations

Foundations offer excellent opportunities, and are certainly a vital component of any fundraising campaign (see section below). There are more than 63,000 private and community foundations operating in the United States today. Thus, charter school managers should undertake a thorough and persistent search to identify foundations that are interested in funding projects such as yours.

The four main types of foundations are:

- **Independent foundations** established by wealthy families or individuals;
- **Company sponsored foundations** (or corporate foundations) created and operated by businesses;
- **Operating foundations** pursue social welfare, research or other charitable programs that are led by the donor or governing body; and,
- **Community foundations** supported by and operated for the benefit of a specific community or geographic region.

National foundations that provide funding for charter schools, such as the Bill and Melinda Gates Foundation (www.gatesfoundation.org) and the Walton Family Foundation (www.wffhome.com), do not make funds available for "bricks and mortar" projects, but may be a source of predevelopment funding or other special initiatives funding. Funds obtained for programmatic needs may free up other funding to be used for facility endeavors. You may be more successful obtaining funds for your capital project from a community or family foundation, which often maintain a specific geographic focus.

Foundations almost always provide funds in one of the following ways: (1) grants, (2) program-related investments ("PRIs"), or (3) recoverable grants. Grants are made for a specific amount and

purpose; no repayment is required. PRIs are investments made by foundations to support charitable activities that require repayment within a specified timeframe. Typically, PRIs carry below market interest rates and are often used as way of leveraging additional dollars from other sources. Recoverable grants are grants that function as interest-free loans.

LAUNCHING A CAPITAL CAMPAIGN

A capital campaign is an organized, systematic approach to raising grant money. The critical difference between a "capital campaign" and "fundraising" can be summed up in three words: focus, duration, and purpose. A capital campaign is planned around a specific goal, usually a facilities project. The campaign can be as short as six months or as long as two or more years. Further, it requires a coordinated effort among the board of

APPLYING TO FOUNDATIONS

Once you know you meet the eligibility criteria for a foundation, get an application or find out the process for applying. If you prepared a business plan, it may be a useful attachment to that application. Pay attention to deadlines – many foundations make grants only once or twice a year.

- **Be Clear About Your Request.** This manual is focused on developing your facility. If you are requesting foundation funds for your facility, you are looking for a "capital grant" or a grant "for bricks and mortar" or a "building grant". This is different from a request for an operating grant (to pay staff, buy materials etc). Many foundations have specific guidelines for capital grants. Check before you apply.

- **Hone Your Message.** If you are aware of a foundation's hesitation over charter schools, think carefully about how you will present your program. Often a pre-application meeting can be useful to answer any questions about how charter schools work. Be prepared to respond to questions about charter schools siphoning resources from traditional public schools, etc. If you meet eligibility requirements in other areas, such as serving a low-income population, try to emphasize the impact of your program in reducing poverty, for example.

- **Demonstrate Stability and Sustainability.** Foundations want to know how you will sustain your program in the future. They are concerned about grantees becoming dependent on foundation support. This is a good opportunity to demonstrate how your school is self-supportive through per pupil allocations.

- **Do Your Homework.** Make sure you have researched the size of grants a foundation has made in the past. Be sure your request fits in that range. Also, realize that foundations often require status reports to find out how their investment is doing. It is important to honor this commitment and many schools use it as an opportunity to further familiarize foundations with their work.

- **Beware of Co-Mingling Funds.** Never change the use of grant funds without the consent of the donor. Even if you are in a bind and need to make payroll, don't use grant funds restricted for a capital project for any other use. Make sure you understand what the funds can be used for when you receive them and make sure your financial management system can keep them separate.

directors, school staff, management, and frequently, volunteer labor to implement the capital plan.

If you can afford it, consider hiring a fundraising consultant. These professionals can first assess the campaign's feasibility: How responsive are prospective investors (i.e., foundations, corporations, private investors, the community-at-large) to your organization? Would they likely support your project, and to what extent? If the answers are in the affirmative, he or she can then develop a targeted list of prospective candidates, set clear financial goals within a specified framework, and then implement the capital campaign.

The capital campaign plan should be a written document that includes financial benchmarks for each source of funds raised (e.g., foundation grants, corporate donations, individual donors, etc.) as well as a timeline for each goal. The plan should itemize each prospective funder category and the specific donors you intend to apply to in each category. In the event that one of your board members or a friend of the charter school has a personal contact or prior relationship, you may decide to assign them as "point person" for that donor.

As noted in the previous section, foundations have varied initiatives and interests, so it's important to research appropriate candidates before making a formal application. In fact, many foundations require that you first send an "inquiry letter" describing your project, and before submitting a formal application.

INDIVIDUAL DONORS & PRIVATE INVESTORS

Charter schools can also run successful campaigns targeted to individual donors. For example, a "Buy a Brick" campaign, with each donor's name engraved on a brick footpath to the school's main entrance, or a "Wall of Community Supporters" using tiles decorated by students can be a personal approach. These approaches generate dollars and build community goodwill for your capital project.

Unfortunately, the cost of raising many small contributions from a large pool of people is usually high. Greater pay-off may be found by targeting wealthy individuals in your community, or by thinking creatively about novel approaches to financing the facility. For example:

- Your seller may also be willing to donate the property, in exchange for a tax break;
- A private investor may be willing to purchase a property and then lease it back to the charter school under more favorable terms and conditions that would be available in the open market; or,
- A wealthy individual may be willing to donate stocks or bonds in exchange for a tax break, which could then be used to collateralize a loan; and,
- A private group with a vested interest in your project, such as maintaining historical integrity, might contribute (e.g., the National Trust for Historic Preservation provides grants to projects related to maintaining and preserving historical buildings, www.nationaltrust.org/).

Investigating your options and determining how you will fund your charter school facility can be a long and tedious process; however, in the end you will have accomplished a lot and will be prepared to see your dreams for a facility become reality as you navigate your way through design and pre-construction (Chapter 7) and construction (Chapter 6).

ADDITIONAL RESOURCES

1. United States Department of Agriculture, Rural Development Community Facilities Loan Program (see the Community Facilities programs listed under Housing and Community programs) www.rurdev.usda.gov
2. National Community Capital Association (lists membership organizations for community development lenders) www.communitycapital.org
3. Coalition of Community Development Financing Institutions (lists membership organizations and direct community lenders) www.cdfi.org
4. The Foundation Center (information on foundations across the country) www.fdncenter.org
5. National Clearinghouse for Educational Facilities (updated resource list) www.edfacilities.org
6. National Association of Charter School Authorizers. *Building a Foundation for Success: How authorizers can help schools with the facilities challenge* (link to article in NACSA newsletter) www.charterauthorizers.org/files/nacsa/BECSA/IssueBriefNo2.pdf
7. *The Finance Gap: Charter schools and their facilities* (Jan 2004) by LISC, Institute for Education and Social Policy, Bill & Melinda Gates Foundation www.nyu.edu/iesp/publications/The%20Finance%20Gap.pdf
8. U.S. Charter Schools: Facilities (information from US DOE on the charter school facility process) www.uscharterschools.org/pub/uscs_docs/r/facilities.htm
9. *The Charter School Facility Finance Landscape by LISC* (survey of public and private providers of funding and financing for charter school facilities) www.lisc.org/resources/2005/06/landscape_8088.shtml?Social+&+Economic+Development
10. National Alliance for Public Charter Schools (national non profit committed to advancing the charter school movement) www.publiccharters.org
11. The Charter Coalition (membership organization for mission-driven community development practitioners providing financial and development services) www.thechartercoalition.org

Construction

CHAPTER 7

This section first reviews the three major project delivery approaches to building construction. Following that, it addresses the key elements to successfully managing the construction process.

PROJECT DELIVERY OPTIONS

There are three major approaches to constructing a building ("project delivery"): traditional, design-build, and construction management. Regardless of which approach is used, all three methods involve the owner (the charter school), the architect, and the contractor (or builder). The key variables that distinguish one approach from another are cost, scheduling, level of control (over the project), and owner capabilities and preferences.

■ Traditional ("Design-Bid-Build")

The most common approach to building a school is the "traditional method," also known as "design-bid-build." In this approach, the owner (the charter school) engages an architect at the beginning of the process to develop the building design and prepare all construction documents required to build the facility. The owner uses these documents to bid out the construction contract, and then selects a general contractor (GC). More often than not, the GC who submits a bid that best responds to the requirements of the construction documents at the lowest amount is hired to build the project.

A variation on the "design-bid-build" method worth considering is the "negotiated select team approach," also sometimes called "design-assist." In this approach, the architect and contractor are selected at the same time and work collaboratively from the very early stages of the design process. This approach usually produces an earlier cost estimate for the entire project, since the architect and GC are working hand-in-hand during the design stage.

The primary distinguishing characteristic of the traditional design-bid-build method is the clear separation between design and construction. This "separation of powers" is evidenced by individual contracts that you, the owner, negotiate and manage between your two principal team players: architect and general contractor. Since there is no direct contractual relationship between the architect and general contractor, both parties report to you, the owner, and you are responsible for resolving any issues between them that may arise during construction.

Many charter schools rely on the traditional approach because they directly and actively participate in the entire design and construction process. Also, if the charter school decides to make changes during the design phase, the changes are accomplished between architect and owner only, and with relatively minimal cost. Then, the design is finalized prior to the construction bidding process so that the end results are fairly predictable.

Design-Build

The design-build approach is very different from the traditional approach. It is appropriate for charter schools that prefer a single point of accountability for design and construction. In design-build, the charter school contracts with an entity (e.g., firm, joint venture, or consortium) that includes both architect and contractor, rather than separately contracting with each. Thus, there are two phases to the development process in this method—design and construction—each of which is administered by a single source.

The design-build method has gained in popularity due to clients' concerns about the inherent tensions between architect and contractor that often exist in the traditional approach. That is, even in the best of circumstances, most owners find themselves in the challenging position of mediating between architect and contractor at some point during the construction process.

Owners may prefer the design-build approach when the project is complex and necessitates close coordination between design and construction expertise. In these situations, the number of change orders may be substantially reduced since the architect and contractor are working hand in hand. Change orders almost always lead to construction delays and increased costs, so the ability to control the potential for these **setbacks** is crucial.

Unlike the traditional design-bid-build method, there is no direct relationship between the owner and the architect in a design-build: the architect is working for the contractor, not for you, the owner of the facility. Consequently, the design-build team may push for cost- and time- savings strategies that may be in their interest, not yours, and which could compromise design and construction quality.

Construction Management

Construction management is a term that is used to cover a variety of project delivery methods in which a construction manager (CM) is added to the building team to oversee variables such as scheduling, cost, project management or building technology. CMs usually have training as architects, engineers, or builders. The three most common roles for the CM are advisor, agent, or contractor.

CM as Advisor This is the most common CM arrangement and is usually paired with the traditional design-bid-build approach. With this approach, the CM is contracted to provide advice to the owner about the scope of the project (e.g., cost, scheduling and construction issues), but does not build the building. In this case, the CM is often considered the owner's representative (or project manager), and is usually added to the team at the outset of the project, or at the latest, once the design phase is completed. Thus, the development team consists of four major players (i.e., owner, architect, GC and CM), and communication and coordination between all four parties is critical. This role can be critical. Although you have separate contracts with the architect and GC, each will ultimately look out for their own best interest. The CM will always be focused on what is in your best interest.

CM as Agent As agent, the CM acts on the owner's behalf, which enables you to substantially stay out of the project to a large extent. As agent, the CM is hired at the project's beginning, oversees all activities through construction completion, and has broad fiduciary powers throughout the project. This approach is not seen as often as CM as advisor or CM as contractor.

ADVANTAGES OF PROJECT DELIVERY OPTIONS

Traditional ("Design-Bid-Build")	Design-Build	Construction Management		
		CM-Advisor	CM-Agent	CM-Contractor
Design-Bid-Build's linear process is easy for owners to manage and understand	This approach provides a single point of responsibility for design and construction, thus minimizing owner risk and responsibility	Owners with less experience and those lacking in-house construction capabilities can benefit from CM expertise	Same as CM Advisor	Since the CM makes a cost commitment early in the project, the owner has a degree of security about costs
Owners can actively participate in the design process	Interactions between GC and architect are better coordinated, which saves time. The owner provides input at an early stage, and once the design builder is hired, owner involvement is limited.	A CM-advisor empowered with decision making authority and management responsibilities may speed up the process	A CM-agent's ability to make fiscal decisions can speed up process and reduce duplication	Since CM-contractor commits to deliver the project for a specified price, it is in their interest to complete the construction on time
Scheduling is straight forward, since design and construction phases are sequential, not overlapping	Related to the above, time consuming meetings and paperwork may be reduced, since the architect and contractor are on the same team	Architect remains directly accountable to the owner, protecting the owner's interest; architect can also benefit from CM-advisor's input during design stage	Additional construction expertise during the design phase can have positive effects on the project (e.g., cost estimating during the design phase allows construction costs to be monitored at an early stage)	Owners with limited construction experience can benefit from CM-contractor's expertise
Design-Bid-Build process benefits from the architect's professional responsibility to design a building of quality and act on behalf of the owner	Early cost estimates in this approach can be advantageous in terms of project budgeting and financing	A CM-advisor's review of construction documents is a second level of review that helps reduce errors and omissions, thus resulting in reduced costs related to change orders and other delays	Same as CM Advisor	Like other approaches, independence of architect and contractor makes responsibility and liability relatively clear

Continued

ADVANTAGES OF PROJECT DELIVERY OPTIONS (CONTINUED)

Traditional ("Design-Bid-Build")	Design-Build	Construction Management		
		CM-Advisor	CM-Agent	CM-Contractor
Once the contractor makes a cost commitment, it is usually reliable, because it is based on nearly completed design documents	Time delays due to scheduling problems and change orders may be reduced since the architect and contractor closely coordinate activities	Clearly delineated responsibilities between all parties lessens potential for ethical dilemmas or conflicts	No link between CM-agent and the contractors; thus, contractors can be selected based on competitive bidding	Scheduling is straightforward because design and construction phases are usually sequential
Design and construction roles are separate and well-understood, making both responsibility and liability relatively clear	Potential for conflicts between architect and contractor are eliminated			
Owners have the opportunity to review competitive bids for construction costs				
Contractors are familiar with process and work well under this approach				
Architects are more active in construction administration than in other project delivery methods so design intentions are carried through construction				

Continued

DISADVANTAGES OF PROJECT DELIVERY OPTIONS (CONTINUED)

Traditional ("Design-Bid-Build")	Design-Build	Construction Management		
		CM-Advisor	CM-Agent	CM-Contractor
Construction costs are not firmly established until design stage is completed	This is not as well understood and can be more complex (as compared to traditional Design-Bid-Build)	Added levels of coordination and overlapping areas of authority can confuse the traditional roles and complicate the traditional processes of design and construction	Same as CM Advisor	Time required to select an additional professional extends the overall time required for the project
If bids run over budget, redesign, value engineering and rebidding processes can lead to project delays and additional design costs	Design, scheduling and construction are interwoven, making it difficult for the owner to participate in decision –making	A CM-advisor represents an added cost	Same as CM Advisor	Same as CM Advisor
Architect does not typically receive benefit of the contractor's advice on construct ability and costs during the design phase	Owner may not have the time or expertise to prepare adequate bid selection materials, thus decreasing the advantages of Design-Build	A CM-advisor may suppress direct communication between owner, architect, and contractor	Same as CM Advisor	Since the owner does not contract directly with prime or trade contractors, owner may be unable to control quality during construction process
Knowledge of some advanced construction technology offered by specialtysubcontractors and general contractors is not as readily available in this approach	Architect does not directly serve as the owner's agent, but is contracted (or employed) by the design-build firm, shifting the architect's allegiance away from owner to the design-builder	Confusion in decision-making process may contribute to design and/or construction delays	Same as CM Advisor	

Continued

DISADVANTAGES OF PROJECT DELIVERY OPTIONS (CONTINUED)

Traditional ("Design-Bid-Build")	Design-Build	Construction Management		
		CM-Advisor	CM-Agent	CM-Contractor
Since most contractors compete on the basis of the lowest bid, any gaps or alterations in the design documents may lead to opportunities for contractors to delay construction and/or request change orders	Design-builder's cost commitment may not be based on full design and documentations since the designer and builder are working hand-in-hand. Disagreements with the owner may arise over what was implied in the documents. And, design changes required by the owner can become change orders, adding costs	Since each of the three prime parties holds a separate contract with the owner, there is the potential for adversarial relationships, increasing the likelihood of disputes	Same as CM Advisor	Same as CM Advisor
This approach's relatively long process may be unacceptable for owners	Deliberations about cost-savings strategies take place with the design-build team, which may lead to reductions in building quality without input from, or knowledge of, the owner			When CM-contractor is selected by low bid, change orders and delays are likely, which increases costs
Since process is linear, any delay in one of the phases usually sets back the entire schedule				Linear process of this approach makes it relatively lengthy
Construction delays may result in added costs to owner and architect				
Adversarial relationships and potential for litigation can develop between architect and contractor, due to their separate contracts with the owner				

Adapted from *Handbook of Project Delivery* (published by the American Institute of Architects, California Council), AIACC@aol.com

CM as Contractor In this role, the CM fills the part of general contractor, and assumes all responsibility and liability for project construction. The CM as contractor approach combines several aspects of other approaches. The CM is hired early in the design process, and thus provides an early cost commitment and potentially better management over construction scheduling. The owner also still retains control of (and responsibility for) the design process, since the architect is hired independently of the CM.

MANAGING THE CONSTRUCTION PROCESS

This section assumes that you use the traditional approach (design-bid-build), and that your development team consists of the owner, architect, and general contractor only.

MANAGING AGAINST CONSTRUCTION RISK

RISK # 1 The project's budget is understated and money runs out before the project is completed.	1) Develop a *detailed budget with a contingency.* The budget should provide a realistic estimate of all project costs, with construction costs based on a guaranteed price contract or bid, and with individual line items for each soft cost. The budget should include an allowance for any unforeseen occurrence during construction (usually 10% for new construction hard costs; 15-20% for renovation hard costs; 5% for soft costs). 2) Execute a *fixed-price contract (i.e., stipulated sum or guaranteed maximum price).* The contract price is fixed, determined in advance of any construction, and based on defined construction specifications that are prepared by the architect and agreed to by the owner. Carefully review the GC's exclusions. 3) *Make monthly disbursements* to the contractor through the construction lender, based on an *application and certification for payment.* This is a generally accepted process for disbursing construction loan proceeds, whereby the general contractor (GC) requests payment from the owner (borrower), according to a schedule outlined in a construction contract. The applications for payment provide detailed information about how much work has been completed to date, and are signed off by the architect. The lender's inspector provides a separate report on payment applications. Do not sign a contract which allows for payments in equal monthly installments over the term of the contract. 4) Hire a *project manager* to oversee the development/construction project.
RISK # 2 The general contractor (GC) runs into cash flow problems. He/she doesn't have cash available to purchase supplies or pay subcontractors. Or, the GC diverts loan proceeds earmarked for the construction project to another purpose.	1) Make sure that the GC posts *payment bond and performance bonds.* These are bonds issued by a surety company. They are similar to an insurance policy that insures that if the GC does not pay his/her subcontractors or the GC is unable to complete the project, the borrower can make a claim to the surety company. For a smaller GC, have the GC obtain a letter of credit that equals 25% of the hard costs. 2) Require a *Lien Waiver and Release* upon each application for payment. By using this release, the GC, each subcontractor, supplier of materials, and mechanic acknowledge that upon payment, any right to place a lien on the property for work performed on the project to date will be waived. 3) Obtain a *satisfactory contractor's qualification statement,* which indicates the experience, availability, and capability of the proposed contractor. The statement should include financial statements, a resume of significant (and similar) work experience and references. 4) Check the GC's references for work on similar projects.

MANAGING AGAINST CONSTRUCTION RISK (CONTINUED)

RISK # 3 The GC (or a subcontractor) places a mechanic's lien on the property, thus placing the senior lender's first deed of trust (or mortgage) at risk.	1) Require a *release of lien* upon each application for payment (see Risk 2, #2 above). 2) Obtain *title insurance.* This is an insurance policy that assures that the senior lender will have a first deed of trust. Depending upon the state, "bring downs" or "bring to dates" may be required for each construction loan advance, so that the bank is insured only up to the amount advanced by that date.
RISK # 4 The GC has completed 95% of your project, but has started another large project, and doesn't show up to complete your project.	1) Obtain a *satisfactory contractor's qualification statement* (see Risk 2, #3 above). 2) Make sure that the GC posts *payment bond and performance bonds* (see Risk 2, #1 above). 3) Hire a *project manager* to oversee the development/construction project. 4) *Require Retainage*. This is a standard payment plan by which a certain percentage (typically, 10%) is withheld from the progress paid to the GC to ensure that the GC will not walk away from the project prior to 100% completion. This is standard practice for many construction lenders. 5) Contact the GC's *bond* company.
RISK # 5 An environmental problem is discovered on the property (e.g., contaminated groundwater due to a previous facility located on, or adjacent to, the property).	1) Obtain a *Phase 1 Environmental Site Assessment Report.* This is a report obtained by a third party (prior to construction, and usually required by your lender) that identifies any existing, potential, or suspect conditions that may pose an environmental liability to the property. 2) Hire a *project manager* to oversee the development/construction project.
RISK # 6 When the building is completed, the city inspector determines that it is not structurally sound, and will not issue a final permit.	1) Make sure that your architect has *Certificates of General and Professional Liability (Errors and Omission insurance).* The architect's professional ***liability insurance*** covers negligent work performed by the architect and protects the owner (borrower) if there is damage due to such negligence. 2) Obtain an *Architect Qualification Statement.* This is a statement verifying the architect's qualifications and experience with projects similar to yours. 3) Check the *architect's references* for work completed on similar projects. 4) Require *Certificate of Occupancy* prior to release of final loan funds. This is a certificate issued by the appropriate government authority indicating that the project is ready and fit for occupancy, and that there are no building code violations. 5) A lender's *Construction Inspector* is appointed by the lender and serves as his/her representative to monitor construction progress on a monthly basis. This individual warrants the work on the lender's behalf only. 6) If possible, review a *Construction Inspector Pre-Construction Report.* This is a written report from the lender's construction inspector that provides an analysis of the feasibility of the project, specifically the reasonability of the price that the GC is bidding and the timeframe proposed. 7) Obtain *Satisfactory Contractor's Qualification Statement.* (See Risk 2, #3 above). 8) Hire a project manager to oversee the development/construction project.

MANAGING AGAINST CONSTRUCTION RISK (CONTINUED)

RISK # 7 An accident occurs during construction and a worker is seriously injured. The worker sues the GC, thus tying up the GC and impeding completion of your project.	1) Increase the charter school's *General Liability Insurance.* Make sure that the school's insurance policies cover the value of the new property (with proposed improvements). 2) If the borrower is purchasing a new site, make sure the new property is added onto the charter school's existing insurance policies. 3) Confirm that the GC has sufficient *Workers' Compensation Insurance.* Ensure that the GC has sufficient insurance to cover workers in case of an accident.
RISK # 8 A flood, fire, or other disaster occurs on the construction site, causing serious damage to construction in progress.	1) *Confirm* that the GC (or the owner) has obtained ***Builder's Risk Insurance*** in an amount that is at least equal to the GC's contract. 2) *Determine* whether the property is in a flood zone and do a search for Flood Compliance (usually performed by lender).
RISK # 9 Real estate market conditions take a downturn, and once the building is completed, it is appraised for less than what it cost to construct it. The senior lender's loan-to-value is insufficient, and requires additional collateral coverage.	1) Obtain an *as-built appraisal reflecting adequate* ***collateral*** *coverage.* This is a third party estimate of the property's value, once constructed, based on plans, specifications and current market conditions. Lenders typically allow a maximum of loan-to-value percentage of the property's value to be in the form of senior debt so as to make sure that the property can be sold to cover the outstanding loan in a liquidation scenario. The lender providing the loan typically orders the appraisal. 2) If possible, obtain a *Construction Inspector Pre-Construction Report.* (See Risk 6, #6 above). 3) Ask your lender for *construction inspector's* reports throughout the project, if possible.
RISK # 10 The charter school's current operations suffer because management is focused on the new development project and "no one is minding the store".	1) Hire a *project manager* to oversee the development/construction project.
RISK # 11 The building is constructed with a small portion encroaching on a neighbor's property.	1) Obtain an *Architect Qualification Statement.* (See Risk 6, #2 above). 2) Review a *Construction Inspector Pre-Construction Report.* (See Risk 6, #6 above). 3) If possible, obtain *an A.L.T.A./As-Built Survey.* This is a survey prepared by an independent, third party surveyor showing the precise location of all improvements, encroachments, and rights of way on the property. Lenders may also require an updated survey once the building's footprint (e.g., footings and foundations) is laid to avoid this problem.

■ Selecting a General Contractor

Selecting and hiring the right general contractor is one of the more critical decisions to ensure your project's success. In general, you want an experienced builder, one that possesses a reputation for quality construction and a proven record of completing projects on schedule. You may want a builder who has specific experience with projects similar to yours. While explicit experience with a school may not be a requirement, it may save you time and money in the long run, especially if there are aspects of your project that are unusual.

Finally, you should seek out potential candidates who appear easy to work with and seem to interact well with your development team members, particularly your architect. A mutually respectful relationship between architect and contractor will go a long way to saving your school from disruptive conflicts during the construction process.

The following seven steps are recommended when hiring your general contractor:

(1) Establish Evaluative Criteria All prospective candidates should be evaluated on a level playing field. To accomplish this, you must first establish basic criteria upon which to make a decision. Criteria for Selecting an Architect (in Chapter 4) can easily be adapted to facilitate the hiring decision for your builder.

(2) Identify Prospective Candidates You should develop a short and long list of desirable candidates. Sources for possible candidates include: your architect, local chapters of trade and/or professional associations such as The Associated General Contractors of America (AGC), the American Institute of Architects (AIA), the Chamber of Commerce, your state charter school association, the national and local association of independent schools, and local school districts.

(3) Contact Prospective Candidates via a Request for Proposals A Request for Proposals (RFP) or Request for Bids is an effective means of soliciting candidates. The RFP is a written document that describes the proposed project, the types of services sought, the proposed schedule, and any unusual aspects of the project. The RFP also provides specific guidelines for each candidate to follow if they choose to submit a bid such as page length, types of attachments required, due date, and so on. By issuing an RFP, you can evaluate all candidates based on the same criteria since all candidates will be asked to submit the same information.

A Request for Qualifications (RFQ) allows the owner to gain a better understanding of the candidate's credentials. Qualifications from a general contractor provide customer references, a list of pertinent projects, the GC's years in business, banking relationship, surety for bonding, and financial viability. In some instances, the owner is more concerned with a positive personal interaction with the candidate (evidence of the potential for a good working relationship), than his or her qualifications. However, when applying for financing, banks will rely on the GC's qualifications to confirm that he or she will perform the duties outlined under the contract. It is acceptable to ask for multiple copies of the proposals and qualifications so that several members of the team or committee can review them simultaneously.

You may want to hold a pre-bid conference, in which you invite all potential bidders to visit the site, so they can get a better feeling for the proposed project. This approach may also cut down on your workload, in that you won't have

to repeat the same information to multiple parties. Hosting such a conference also helps you identify the "serious" bidders.

(4) Review Qualifications Materials and Develop a Short List General Contractors can deliver their qualifications package ahead of time, allowing for review of that piece before consideration of the bid. When checking references, having a single person make all of the calls usually results in a more objective assessment of what is learned. If the owner and general contractor are in the same area, a visit might be preferred. Once all of the bids are received, they are then ranked using the evaluative criteria developed earlier. A short list of three to five firms and/or individuals can then be selected for personal interviews.

(5) Conduct Interviews At least three or four people should be involved in the interview process, so as to solicit different perspectives and to share the burdens of the hiring decision. A good approach is to include one or two key board members, the principal/school director, another staff member, and your architect. Each candidate should be asked to make a short presentation, and speak to his or her understanding of the project, his or her relevant experience, his or her enthusiasm for the project, his or her ability to work within timing and financial constraints, and other relevant factors. Asking each candidate the identical set of questions will also assist you in comparing "apples to apples."

(6) Evaluate Proposals and Make Selection The bids should be ranked, and then selected on the basis of the evaluative criteria previously established. Remember to check all references thoroughly before finalizing or announcing your decision! You might want to consider talking to owners and/or architects of previous projects in which the General Contractor was involved.

(7) Negotiate Contract(s) Contracts are then negotiated with the winning bidder. Maintain cordial relationships with the losing bidders, in the event that some unforeseen event occurs with the winning bidder and you have to re-start the process. Be prepared for requests for debriefings by the unsuccessful candidates, and decide ahead of time about your policy on debriefings, and how much information you want to share.

Negotiating vs. Bidding

In some instances, it may make sense to negotiate a contract with a single general contractor (GC) rather than bidding it out to several GCs. This might be the case if there is already a trusting relationship between the charter school and the GC. It may also be appropriate if the project is so complex that it requires detailed pricing analysis for a series of complicated scenarios before decisions are made, or if the GC is part of the team from the beginning. The owner can still accrue the benefits of bidding, albeit from a smaller pool of subcontractors, by asking the GC to share his subcontractor bid results in an "open book" format. A good contractor will gladly share this information with a trusted owner, knowing that his or her company will be fairly rewarded for their work.

Charter schools might also consider the use of "bid alternates" during the bidding process. For example, you may want to consider installing skylights in the building's internal corridors so that daylight is brought in, but you may also be understandably concerned that this attractive design feature will put you over budget. In this instance, you can ask your architect to include this

component as a bid alternate, which will provide you with a specific amount for that particular design component. You can then decide whether or not you want to include it once all of the bids are received.

Maintaining the Project Budget

Construction can easily comprise approximately 50 to 75% of a development budget, depending upon various factors such as land acquisition costs, local wage rates, etc. Ongoing monitoring of the construction process and budget will help to reduce the possibility of cost overruns. Of course, as noted earlier, selecting the best payment approach for your consultants, and negotiating clean, clear contracts will go a long way towards achieving these goals. Along with a reasonable contingency, this will give you the flexibility you need to counter unforeseen events during the construction process.

It's important to recognize that changes to, substitutions for (or even eliminations of) specific project components are an inevitable part of the construction process. Why? First, a specific product may not be available, and substitutions may have to be researched and secured. Second, there may be a price increase in materials, forcing you to consider a less expensive alternative. Or, there simply may be delays in shipping that will create a "logjam" with other project components, and selecting a more readily available option may alleviate the problem. You and your architect should approve all substitutions before they are installed.

Regardless, it will be essential to make certain that any substitutions or eliminations do not substantially affect (or compromise) construction quality. If your priorities are clear and well thought out, you can assess unanticipated changes in the context of overall project quality. Also, if your project budget includes sufficient contingency funds, and unbudgeted items before construction do not consume them, you should have sufficient cushion to handle most substitutions.

Of course, maintaining the project budget doesn't start with construction – it must be an ongoing process, beginning in the predevelopment stage when designers and other consultants constitute the bulk of the expenditures. It is important to maintain impeccable financial records of these early expenditures, as they can most likely be reimbursed at closing of the construction loan, if proof of expenditure is available.

Payment Process During Construction

The contractor will typically provide an Application for Payment (form AIA G702 and G703) on a monthly basis. This document includes a breakdown, by building trade, of the entire contract amount. It also reflects the amount completed to date, the amount remaining, the retainage being withheld, and the amount due. The architect and project manager should review this document for accuracy before approving payment to the contractor.

The contract with the GC stipulates the timeframe within which the owner has to make payment to the contractor, usually 25 days. It's in that window that the architect reviews and approves the Application for Payment and the owner or project manager sends it to the lender with a requisition for payment for the lender's review and approval. The lender then typically sends an inspector to the site to verify that the work billed is indeed complete, and the inspector writes a report to the lender approving payment. Prior to authorizing payment, the lender typically collects additional documentation to support the inspector's report. For example, the lender may collect conditional lien waivers (lien waivers that the GC gives to the lender indicating that he or she has not been paid for work that has been

completed, but expects to be paid based on the current month's work) and unconditional lien waivers (lien waivers that state that the GC has been paid for the prior month's work). The lender may also want a certification from the owner stating that there are no pending issues (i.e., that the work completed to this point is satisfactory) and that there is no change in the owner's financial condition. The lender will also likely contact the title company and require a title update (also referred to as a title run, title bring-down, or continuation report). At this point, the lender transfers the funds to the owner, who then writes the check to the GC.

While these steps may seem cumbersome, they are designed to protect the lender and the owner by ensuring that funds are not released until the work is completed to everyone's satisfaction. An owner who can routinely effect these transactions on the process timely basis will reap the benefits of a relationship with their GC and lender. To streamline the process, a lender's inspector often attends monthly meetings.

■ Project Close-Out and Final Occupancy

Project closeout is initiated when the contractor notifies you, the owner, that the building is sufficiently completed (according to the Certificate of Substantial Completion) and is ready for occupancy. At this stage, the following nine steps are taken:

(1) When the project is nearing completion, the architect will conduct a walk-through with the contractor, creating what is known as the "punch-list." It is at this time that unfinished tasks – which should be minimal at this point in the project – are listed as conditions to be completed by the contractor prior to final payment. It is a good idea to have both the project manager and a representative from the charter school attend this session, which, although tedious, benefits from several sets of eyes looking over the completed construction. Among the details that should be checked are door hardware, light switches and missing light bulbs, function of plumbing fixtures, availability of hot water, finishes, paint touch-ups and the functioning of and hardware on casework (built-in furnishings).

(2) The owner (or project manager) undertakes a detailed inspection to make sure that the work fully conforms to the contract documents (usually working from a final "punch-list" of outstanding items).

(3) The GC and his or her subcontractors, along with the owner and the owner's facilities or maintenance staff, conducts a walk-through of the project to demonstrate how all building systems operate. It is a good idea to videotape these demonstrations for future reference.

(4) The owner and contractor determine the final contract amount to be withheld ("retainage") until final completion. If the construction is financed, the lender will probably not release retainage (up to 10% of contact amount) until the Certificate of Substantial Completion and Certificate of Occupancy are received (Note: Depending upon scope and length of project, there may be subcontractors who performed and completed work during the early phases of the project. On a case-by-case basis, a lender may release their retainage).

(5) Once the facility is complete, the architect issues a certificate of substantial completion, which is then signed off by the GC and the owner.

(6) There is a walk-through and inspection by the owner and contractor, who agree that the building is ready for a final inspection by all third party agencies.

(7) Third parties inspect and sign off on the project, resulting in the issuance of a certificate of occupancy (CO).

(8) The GC then provides all warranties, affidavits, receipts, releases, and waivers of liens of **bonds** to the owner, indemnifying the owner against liens. Usually, if a bank finances the project, the owner will also have to provide these items to the bank.

(9) The GC issues final application for payment and either simultaneously or after receipt of payment issues a final release of liens.

Many development professionals recommend producing an operations and maintenance manual prior to moving in to the new facility. The purpose of the manual is to maintain all key information related to the project in a single location, so that once your development team is off on another project, you and your staff are armed with the vital information necessary to manage the building. Ideally, the design team and your contactor should produce the manual, together with the following key elements:

- Identifying major design elements, systems, and materials that are crucial to the long-term quality and performance of the building (e.g., exterior wall and roof materials, windows, exterior doors, landscaping, all major operating systems and related components such as HVAC, plumbing, electrical, mechanical);
- Collecting all vendor-supplied operations and maintenance information and manuals, and all warranties, guarantees and certifications that are contractually owed to you;
- Assembling all previously-produced design materials (e.g., as-built drawings, final finish schedules, and plans); and
- Setting up a maintenance schedule (weekly, monthly, quarterly, annually) for all major system components.

The general contractor typically warrants the overall project for a period of one year following completion. During this time, the GC is obligated to return to the site to correct any deficiencies that may become evident. Your GC will appreciate it if you send your requests in writing and organize your requests so that a number of similar items (i.e. plumbing issues on one request, roof leaks on another, etc.) can be addressed at one time. Daily or hourly phone calls as each relatively insignificant item arises are usually not well received. It is often useful to keep a written log of when the **deficiency** was first noted, when the contractor was notified, when the problem was corrected, and if the problem recurred. Emergencies should, of course, be treated as such.

ADDITIONAL RESOURCES

1. *The Architect's Handbook of Professional Practice, 13th Edition,* The American Institute of Architects, Joseph A. Demkin, AIA, Executive Director, John Wiley & Sons, Inc. 2001
2. *Handbook on Project Delivery,* published by The American Institute of Architects, California Council, Sacramento, CA (1966)
3. The Center for Universal Design (research, information and technical assistance – part of NC State University) www.ncsu.edu/www/ncsu/design/sod5/cud/
4. The Design Linc Resource and Information Center (design solutions for disabled persons and caregivers) www.designlinc.com
5. The Associated General Contractors of America (professional membership organization) www.agc.org

Planning and Scheduling

CHAPTER 8

The facilities development process can be thought of as a complex piece of machinery with many moving parts. Over the course of the process (which could be under a year, or as long as two or three years in duration), numerous individuals will have responsibility for some part of the project.

Several of these people will be a constant presence, such as your architect, attorney, or project manager. Other individuals, such as an environmental engineer or **bond** counsel, will be brought in at a critical stage.

Getting your development project organized, maintaining individual accountability, and having these individuals stay on task throughout the entire development process will contribute to the project's overall success. One useful tool recommended by the American Institute of Architects (AIA) is R-charting (or responsibility charting). This involves assigning responsibility for certain tasks within a group. According to the AIA, people will do what they've promised to do when they are in a group and have publicly agreed to take on a particular task. The AIA further recommends the following steps:

- Identify the appropriate team member who is most capable of completing the task;
- Give this individual the appropriate responsibility and authority needed to complete the task;
- Establish the expected level of performance;
- Define what is expected to complete the task or activity;
- Agree on level of effort and time required;
- Establish interim milestones or some other means of checking in on progress.

Another useful planning tool is the project work plan. Much like you use a business plan as your "road map", a project work plan is another invaluable guide for leading you and your development team through the development process. By listing all the key project components, and by assigning responsibility to an individual for each and every component part, you can be reasonably assured that you will not overlook any major activity along the way.

Finally, you will want to establish a project schedule. Most project schedules list the project's major benchmarks, action steps, and a completion date. Of course, the construction schedule is probably the single most important schedule item and will be established with your general contractor and incorporated into the project's overall timetable. Microsoft Project Management is useful software that helps you create both a work plan and a schedule.

The following chart lays out the action steps covered in this manual and a suggested time frame for each step. It is important to note that any step within the schedule proposed below may take more or less time depending on your school's specific situation and needs. For example, the construction phase for minor renovations should not take a year; however, a complete redo or new build may take longer than one-year to construct.

1) PROJECT DESCRIPTION

Purpose:

- Defines scope of project
- Outlines planning steps required to prepare strategic plan

Timing:

- Develop during strategic planning
- Incorporate into business plan
- Refine as necessary during entire life of project

Varies

2) TEAM SELECTION

Purpose:

- Identifies all necessary team members, both internal and external
- Defines roles for all team members
- Outlines process/criteria for consultant selection

Timing:

- Identify Team Members during project planning phase
- Identify cost of consultants during budgeting phase
- Team members include but not limited to: legal, accounting, development consultant, feasibility consultants etc.

Varies

4) SCHEMATIC DESIGN

- Get site information and survey
- Meet with planning team and staff to develop program
- Develop multiple schemes
- Present to planning team and building committee staff
- Prepare design of preferred scheme
- Present design drawings for approval

4 weeks

5) DESIGN AND DEVELOPMENT

- Consultants finalize work
- Prepare design development documents
- Review design development documents with planning, team, staff and board representatives

4 weeks

6) CONSTRUCTION DOCUMENTS

- Project management planning, scheduling, base drawings
- Survey, soil testing, criteria to engineers for their design
- Deliver base drawings to engineers for drafting
- Develop construction systems
- Building code check
- Material selections
- Food service and library consultants
- Progress reviews with school board
- Prepare specifications and consult with supplier representatives
- Quality control review

18 weeks

10A) CONSTRUCTION

Construction Time

- 14 months unless starting in December, January or February (add 2-3 months)

14 months for ground up new construction. Varies for rehabilitation projects.

10B) CONTINGENCY TIME

For allowable days (weather, etc)

(2 months)

Action Steps

3) SITE ISSUES/SITE ACQUISITION

Purpose:

- Details site selection process

Timing:

- Identify site selection criteria during business planning phase
- Identify potential sites during business planning phase
- Define site costs during budgeting phase
- Purchase and prepare site before construction

Varies

7) FINANCING

Purpose:

- Outlines steps to secure financing for the project
- Determines levels of debt vs. grant/gift financing
- Defines fundraising process if necessary

Timing:

- Define during project planning
- Refine as necessary during budgeting, fundraising and building process
- Secure/close prior to construction

Varies

8) BIDDING AND PERMITS

Purpose:

- Outlines steps and time frames for any required regulatory, governmental or third-party approvals.
- Secures actual budget figures for construction costs

Timing:

- Identify all necessary approvals during budgetary phase
- Incorporate permit and approval schedule into project timeline
- Contact bidders and hold pre-bid conference
- Perform formal bid opening

4 weeks

9) AWARD CONTRACT

Purpose:

- Evaluation of bids

Timing:

- Negotiate price/contract
- Prepare contract
- Issue "Notice to Proceed"

3 weeks

11) MOVE IN TIME

Before students arrive

- Furniture, fixtures & Equipment
- Staff training

(1-2 months)

9

Appendices

Facility for Pinnacle Charter School
in Buffalo, New York

APPENDIX A: OPERATING BUDGET TEMPLATE

	YEAR 1	YEAR 2	YEAR 3
INCOME			
Per Pupil Allocation			
Special Needs			
Other government			
Food Service			
Grants and fundraising			
Parent Contributions			
TOTAL INCOME	$-	$-	$-
EXPENSES			
Personnel			
Salaries			
Benefits			
Academic			
Books / materials			
Academic supplies			
Instructional equipment			
Software / computer supplies			
Field trips			
Operating Expenses			
Advertising			
Insurance			
Janitorial			
Office supplies			
Printing			
Postage			
Staff Development			
Travel			
Facilities			
Rent / lease			
Repairs / replacement			
Utilities			
Telephone			
Transportation			
Security system			
Contracted services			
Bookkeeping / auditing			
Copier			
Custodial			
Internet provider			
Legal			
Special Education			
Student Testing			
Management fee			
Food			
Other			
Depreciation			
Extra-curricular			
Interest			
TOTAL EXPENSES	$-	$-	$-
NET INCOME (DEFICIT)	$-	$-	$-

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APPENDIX B: BALANCE SHEET TEMPLATE

	FISCAL YEAR ENDING MM/DD/YY
ASSETS	
Current Assets	
Checking/Savings/Cash	
Investments	
Due from other	
Government recievables	
Total Current Assets	**0**
Fixed Assets	
Land	
Building & Improvement	
Furniture & Equipment	
Books	
Other	
Total Gross Fixed Assets	**0**
Accumulated Depreciation (subtract)	
Total Net Fixed Assets	0
Other Long-Term Assets	
Investments	0
Total Long-Term Assets (fixed + long-term)	**0**
TOTAL ASSETS	**0**
LIABILITIES & EQUITY	
LIABILITIES	
Current Liabilities	
Line of credit	
Current payments on debt (next 12 months)	
Accounts payable	
Intergovernment payable	
Accrued expenses	
Total Current Liabilities	**0**
Long-Term Liabilities	
Long term debt (excluding current portion)	
Total Long-Term Liabilities	**0**
Total Liabilities (current + long-term)	**0**
EQUITY	
Retained Earnings from current period	
Prior year's retained earnings	
Total Equity	**0**
TOTAL LIABILITIES & EQUITY (must equal Total Assets)	**0**

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APPENDIX C: CASH FLOW PRO FORMA

	Month __	Month __	Month __	Month __	Month __	Month __	Month __	Month __	Month __	Month __	Month __	Month __
(A) BEGINNING CASH	$-	$-	$-	$-	$-	$-	$-	$-	$-	$-	$-	$-
CASH RECEIPTS:												
Per Pupil Allocation												
Special Needs												
Food Service												
Other government												
Grants and fundraising												
Parent Contributions												
Loans												
Other												
(B) Total Receipts:	$-	$-	$-	$-	$-	$-	$-	$-	$-	$-	$-	$-
CASH DISBURSEMENTS:												
PERSONNEL:												
Salaries												
Benefits												
ACADEMIC:												
Books / materials												
Academic supplies												
Instructional equipment												
Software/computer supplies												
Field trips												
OP. EXPENSE:												
Advertising												
Insurance												
Janitorial												
Office supplies												
Printing												
Postage												
Staff Development												
Travel												

Continued

APPENDIX C: CASH FLOW PRO FORMA (CONTINUED)

	Month __	Month __	Month __	Month __	Month __	Month __	Month __	Month __	Month __	Month __	Month __	Month _
FACILITIES:												
Rent/lease/mortgage												
Repairs/replacement												
Utilities												
Telephone												
Transportation												
Security system												
CONTRACTED:												
Bookkeeping/auditing												
Copier												
Custodial												
Internet provider												
Legal												
Special Education												
Student Testing												
Food												
Management fee												
OTHER:												
Capital Outlay												
Interest												
Extra-curricular												
(C) Total Disbursements:	$-	$-	$-	$-	$-	$-	$-	$-	$-	$-	$-	$-
(D) Net Receipts (B-C):	$-	$-	$-	$-	$-	$-	$-	$-	$-	$-	$-	$-
Ending Cash (A-D):	$-	$-	$-	$-	$-	$-	$-	$-	$-	$-	$-	$-

APPENDIX D: NEEDS ASSESSMENT WORKSHEET

Physical Space Needs

To estimate the gross square footage needed (two ways to calculate are shown, use EITHER Form A or Form B)

QUICK CALCULATION, FORM A:			Minimum	to	Maximum
Number of students x square feet per student (60 - 120 sq. ft. per student)					
_____		=	_____	to	_____sq. ft.
If using calculation form (A), this is your gross building square foot number.					

DETAILED CALCULATION, FORM B:					
Classrooms, number of:	_____ (750 - 900 sq. ft. per class)		_____	to	_____sq. ft.
Plus, additional space for (choose spaces applicable to your program, rough square footage estimates given):					
Offices, number of:	_____ (70 - 100 sq. ft. per office)	=	_____	to	_____sq. ft.
Gym, number of students:	_____ (5 - 6 sq. ft. per student)	=	_____	to	_____sq. ft.
Cafeteria, number of students:	_____ (4 - 8 sq. ft. per student)	=	_____	to	_____sq. ft.
Library, number of students:	_____ (3 - 4 sq. ft. per student)	=	_____	to	_____sq. ft.
Special rooms (labs, computer, etc.), number of:	_____ (750 - 1000 sq. ft. per classroom)	=	_____	to	_____sq. f
Other (estimate area your school needs)	_____	=	_____	to	_____
Subtotal (also called "net square footage") is classrooms plus all additional space:			_____	to	_____sq. ft.
Multiply subtotal by 30% for hallways, bathrooms, utility closets, etc.:			_____	to	_____sq. ft.
Total sq. ft. (also called "gross square footage") is subtotal plus 30%			_____	to	_____sq. ft.

IN ADDITION, FOR BOTH FORM A AND FORM B, YOU SHOULD CONSIDER YOUR EXTERIOR SPACE NEEDS:		
Number of parking spaces (will most likely be goverend by zoning requirements):	No.	_____
Outdoor play areas (may be governed by school regulations):		_____sq. ft.
Playing fields for specific sports:		_____sq. ft.

AND ALSO CONSIDER THESE QUESTIONS:

What neighborhoods are to be served by the school?

Are existing bus routes or other public transportation important?

What about convenience for parent drop off / pick up?

Is it important for you to be near other institutions (i.e. public library, museums, daycare centers)?

Are there specific technologies or specialty teaching opportunities that need to be accommodated?

What is the image you are trying to project (i.e. cutting edge, home-like)?

APPENDIX E: CAPITAL BUDGET TEMPLATE (OR SOURCES & USES)

USES OF FUNDS		SOURCE OF FUNDS	
Acquisition of building	_____		
Construction/Renovation Costs			
Demolition of old walls	_____	Cash	_____
Electrical	_____	Grants	_____
Plumbing	_____	Donations	_____
Heating/ventilation	_____	Loan 1	_____
Roof	_____	Loan 2	_____
Drywall and painting	_____		
Carpet	_____	**GRAND TOTAL**	_____
Windows	_____		
Fixtures and Fit-out	_____		
Site work	_____		
Total Construction	_____		
Hard Cost Contingency (10%-20%)	_____		
Total Hard Costs	_____		
Soft Costs			
Legal Fees	_____		
Appraisal	_____		
Architect	_____		
Project Manager	_____		
Engineering	_____		
Insurance during construction	_____		
Closing Costs	_____		
Financing fees (loan origination fee, etc.)	_____		
Interest during construction	_____		
Inspection fees	_____		
Environmental studies	_____		
Accountant	_____		
Security	_____		
Bonding	_____		
Total	_____		
Soft Cost Contingency (5%)	_____		
Total Soft Costs	_____		
GRAND TOTAL	_____		

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APPENDIX F: FINANCING WORKSHEET

The following worksheet can be adapted to your school's financing needs. Use it to compare sources of financing, their terms and conditions.

Financial Institution	_____	_____	_____
Loan Amount Equity required?	_____	_____	_____
Term (in months or years)	_____	_____	_____
Amortization (in months or years)	_____	_____	_____
Balloon Payment	_____	_____	_____
Interest Rate Fixed or variable?	_____	_____	_____
Collateral Required Mortgage/Assignment of Contracts/Leasehold	_____	_____	_____
Application deadline	_____	_____	_____
Application fee	_____	_____	_____
Estimated time to approval/rejection	_____	_____	_____
Estimated time to closing	_____	_____	_____
Origination Fee	_____	_____	_____
Legal Fees	_____	_____	_____
Other closing costs	_____	_____	_____
Prepayment Penalties	_____	_____	_____
Loan disbursement schedule When and how will you get the loan proceeds?	_____	_____	_____
Billing schedule How often will you be billed for loan payments?	_____	_____	_____
Other loan conditions	_____	_____	_____

APPENDIX G

Charter School Loan Application

NCB Development Corporation
Financing, Developing and Empowering America's Communities

APPLICANT INFORMATION

Organization Name	School Name (if different)
Street Address	Contact Person for This Project
City, State & ZIP	Telephone Number
Tax I.D Number	Email Address

AMOUNT OF BORROWING REQUEST AND PROJECT LOCATION

Amount Requested $	Total SQ FT
Street Address(es) of Project to be Financed	City, State & Zip

PROJECT SOURCES & USES OF FUNDS

Sources	Amount ($)	Uses	Amount ($)
Cash		Property Acquisition	
Fundraising		Hard Costs	
Private Grants		10% Hard Cost Contingency	
Public Grants		Equipment Purchases	
Loan(s)		Soft Costs	
Other (Please List)		5% Equipment, Soft Cost Contingency	
TOTAL SOURCES		TOTAL USES	

(Total Sources Must Equal Total Uses)

What is the expected Project start date?	When will the Project be complete?

ADDITIONAL INFORMATION

Authorizer	
Date & length of initial charter	Maturity date of current charter

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LIST OF ATTACHMENTS

PROJECT DESCRIPTION

Include a narrative with:

- A short history of the charter school including student achievement
- A brief description of the project
- Information on the property to be financed
- Information on the project team—architect, contractor, etc.—to the extent known at this point, and include copies of contracts (if available)

MANAGEMENT AND GOVERNANCE

Include resumes for all key administrative staff including:

- Executive Director or Principal
- Assistant Director (if applicable)
- Chief Financial Officer or equivalent
- Individual(s) responsible for managing the project
- A list of names and occupations of all board members

FINANCIAL INFORMATION

Please provide:

- A copy of the last 3 years' financial statements, which must have been either audited or reviewed by an independent Certified Public Accountant
- A copy of internally-prepared statements for the most recent interim period
- Projections for the next 3 years, with detail of assumptions used
- Budget for the next fiscal year

Send Completed Application Package to:

Charter Schools
NCB Development Corporation
1725 Eye Street NW, Suite 600
Washington, DC 20006

(202) 336-7680
charterschools@ncbdc.org

APPENDIX H: CONTRACTOR'S SCHEDULE OF VALUES

Project Name:
Project # & Location
Application:

Application Date:
Period from:
Period to:

A	B	C	D	E	G	H	I
Item No.	Description of Work	Current Scheduled Value	Work Completed: Previous Applications	Work Completed: This Application	Total Completed and Stored to Date	%	Balance to Finish
	PROFESSIONAL FEES Construction Management Profit						
1000	GENERAL CONDITIONS						
2000	EARTHWORK/SITEWORK						
3000	CONCRETE						
4000	MASONRY						
5000	METALS						
6000	CARPENTRY						
7000	ROOFING & INSULATION						
8000	DOORS & WINDOWS						
9000	FINISHES						
10000	SPECIALITIES						
12000	FURNISHINGS						
15300	FIRE PROTECTION						
15400	PLUMBING						
15600	HVAC						
16000	ELECTRICAL & COMM.						
CONTRACT AMOUNT							
CHANGE ORDERS (Incl. margin): Change Order #1							
	ADJ. CONTRACT AMOUNT						

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Glossary of Terms

A

Abstract of title: A summary of the public records relating to the title (or ownership) of a particular piece of land or property. An abstract of title should be a chronological history of recorded instruments that affect the title of the subject property. In some states, an attorney does a title search using an abstract. An attorney or title insurance company reviews an abstract of title to determine whether there are any title defects which must be cleared before a buyer can purchase clear, marketable, and insurable title.

Acceleration clause: A clause in a note, *bond,* mortgage or deed of trust giving the lender the right to demand the remaining balance due and payable before its original date due to an event of a *default*.

Accessory building: A building or structure detached from but on the same property as a main building. Examples of accessory buildings are garages, storage buildings and guest houses.

Accrued interest: Interest accumulated on a loan but not paid since the last due date.

Act of God: An event that causes damage by nature such as a flood, earthquake or tornado. Often referred to in insurance documents.

Action to quiet title: A court action to establish ownership of real property. This court action usually removes any interest or claim to title of real estate, also referred to as a "cloud" on the title. Normally a lender will not commit to a mortgage for a property with title issues. If the complainant is successful in the court action, the title is made quiet, or "clean".

Adaptive reuse: Providing a new use for an older, but sound, structure. Examples might be an abandoned warehouse that is converted into housing or a business such as a charter school.

Add-on interest: Interest added to the amount of the loan on the front end, or beginning of the loan repayment period. The balance (of principal and interest) is then paid by installments. This form of interest is much more expensive than simple interest paid on the entire amount for the entire term of the loan.

Adjustable-Rate Mortgage (ARM): Normally used to describe residential mortgages where the *interest rate* changes during the life of the loan in line with movements in an *index* rate. The rate is usually based on indices tied to the nation's economy. Commercial mortgages with these rates are referred to as "floaters," or having *floating rates*.

Adjusted basis: The original cost of the property plus improvements (including what it cost to sell the property), less depreciation. The gain on the sale is calculated by subtracting the adjusted basis from the sale price.

Agreement of sale: A contract in which a seller agrees to sell and a buyer agrees to buy, under certain specific terms and conditions spelled out in writing and signed by both parties. May be known by various names, such as *contract of purchase*, purchase agreement, binder or *sales agreement* according to location or jurisdiction. See *earnest money*.

American Institute of Architects (AIA): A professional organization of architects. All members of the AIA are registered architects who adhere to AIA' s standards of ethical practice, however, registered or licensed architects are not required to be members of the AIA.

American Land Title Association (ALTA): An organization comprising title insurance companies, abstractors and attorneys specializing in real property law. ALTA has adopted many title insurance policy forms that standardize coverage nationally for property owners and lenders. Many states require ALTA standardized title insurance policies.

Amortization schedule: A list showing the payment number, interest payment, principal payment, total payment and unpaid principal balance.

Amortization: The process of paying off a debt or mortgage, usually by monthly payments. There will be a portion of *interest* and principal in every loan payment. In most standard mortgages, the monthly payment is even with an increasing amount of that payment going toward principal reduction over time.

Amount financed: The base loan amount without regard to *closing costs,* discount points or mortgage insurance premiums.

Application fee: Some lenders may require a small fee as part of the application process. It may be nonrefundable.

Appraisal Institute: A professional organization of real estate appraisers. The Appraisal Institute is the result of a merger between the former American Institute of Real Estate Appraisers (AIREA) and the Society of Real Estate Appraisers. The surviving designations are the MAI (Member of the Appraisal Institute) and SRA (Senior Residential Appraiser).

Appraisal report: A written opinion of the fair *market value* of real estate. The report contains the estimate of value; date of valuation; certification and signature of the appraiser; the purpose, qualifying conditions and description of the subject property and its ownership; a neighborhood description; the approaches to value; and the final determination of value. An appraiser usually reports the present market value for an existing property and proposed improvements. For example, the appraiser may report a value as of the conclusion of construction and as of a projected date. Normally required for all mortgages to be completed by a licensed professional.

There are three different types of valuation approach depending upon the property type and current or anticipated usage. The Market Approach bases value on the sales of other comparable properties. The *Cost Approach* bases value on what it will cost to replace the property. The Income Approach bases value on the income produced by owning the property. In most appraisals all three approaches will be used, with the appraiser stating what approach was most influential in making the final determination of value. In some markets, charter schools can pose a difficultly for appraisers as they attempt to locate comparable school properties and to calculate the possible income generated by the property.

Appraiser: One who estimates value on a professional level. Qualified appraisers have designations of MAI (Member of the Appraisal Institute) or SRA (Senior Residential Appraiser).

Appreciation: An increase in the value of a property due to changes in market conditions or other causes.

Arm's-length transaction: A transaction between individuals who do not have a conflict of interest or reason for collusion. The value of property should be questioned for fairness or accuracy if there is not an arm's-length transaction between buyer and seller. In general, appraisers typically use comparable sales that arm's-length transactions in the market approach to value.

Arrears: Refers to the end of a period with respect to interest payments. For example, interest on a mortgage is paid in arrears, as contrasted with rent, which is paid in advance. For example, a mortgage payment due May 1 is for the interest and principal for April; rent due May 1 is for the month of May. The term can also pertain to delinquent mortgage payments. A mortgage loan that is three months delinquent can be said to be three months in arrears.

Assessed valuation: The dollar amount or value on what real estate tax is levied. If a property worth $100,000 is assessed for tax purposes at 50% of value, the assessed valuation is $50,000. County or township tax assessors normally make appraisals for tax reasons. Many state laws require properties to be reappraised periodically. If the taxpayer disagrees with the appraisal, he or she can appeal to a board of appeal or board of equalization.

Assessment: (1) The fair market value of property for tax purposes. (2) An expense appropriated to a unit of a whole such as a condominium assessment for common grounds, maintenance or an additional charge for improvement. (3) A levy for adding a product or service to a neighborhood, such as curbs or sewers. (4) A value given to a property owner for the taking of the property by the process of *condemnation*.

Asset: Something of value that is owned. An asset could be a parcel of land, a building, stocks or *bonds*, and other "fixed assets" such as heavy equipment, computers and furniture.

Assign: The act of transferring rights or property to another.

Assignee: One who receives rights or property. An assignee stands in the place of the *assignor* for rights, liabilities and interest in the property.

Assignor: One who assigns rights or property.

Assumption of mortgage: An obligation undertaken by the purchaser of property to be liable for payment of an existing mortgage. In a full assumption, the purchaser is substituted for the original mortgagor in the mortgage instrument and the original mortgagor is to be released from further liability. In the assumption, the lender's consent is usually required. The original mortgagor should always obtain a written release from further liability to be fully released under the assumption. Failure to obtain such a release may keep the original mortgagor liable for payments on the mortgage if the assumptor of the mortgage fails to make the monthly payments.

Attestation: The act of witnessing a signature on an legal document.

B

Backup contract: A term often used with contracts to buy real estate. A backup contract is a contract that replaces a prior contract in the event of failure to perform or close by the parties of the prior contract. The seller should get a release from the buyer on the first contract before canceling the contract and proceeding with the second (or backup) contract.

Balloon mortgage: A mortgage loan with periodic payments of principal and interest that do not completely amortize the loan. The balance of this type of mortgage loan is due and payable in a lump sum at a specified time in the future. The borrower pays interest regularly, but may or may not make small principal repayments during the loan period. The unpaid balance is due at a specific time in the future as stated in the mortgage or deed of trust. At the *maturity* date, the borrower must pay the full amount by refinancing the debt or selling the property to pay the full amount. This final payment can be called a bullet or simply the balloon payment. Some lenders guarantee refinancing when the balloon payment is due as long as certain conditions or covenants are met, although they do not commit to a specified interest rate. The rate at refinancing could be much higher than the borrower's current rate. This can be referred to as a "rate reset" or an "extendible rider". Other lenders do not offer automatic refinancing. Without such a guarantee, the borrower could be forced to start the whole business of shopping for mortgage funds again, besides paying *closing costs* and front-end charges a second time. A balloon mortgage can be a senior or junior mortgage; i.e., a first or second mortgage.

Bankruptcy: When a person or business is declared by a court to be unable to pay outstanding debts, that person or business is said to be in bankruptcy. Any assets must be then turned to a trustee for management, an individual appointed by the bankruptcy court.

Base line: A surveyor's term used to show an east-west line.

Basis points: A term used in relationship to interest rates. One basis point is equal to 1/100 of 1 percent, so that 100 basis points equal 1 percent. May be used to describe the amount over an index rate that is charged to a borrower or to describe the amount of fees for a loan.

Binder: A preliminary agreement, secured by the payment of earnest money, under which a buyer offers to purchase real estate. See *Agreement of sale*.

Blanket mortgage: (1) A single mortgage used to secure a debt for money loaned on several properties such as the lots a builder owns in a subdivision. It is important for the borrower (mortgagor) to ask for a partial release clause in a blanket mortgage. A partial release clause will release each lot that is sold for a stated amount that is a portion of the entire debt. Without a partial release clause, the entire debt must be paid before the mortgage is released (2) Mortgage lien secured by two or more property parcels. (3) A mortgage on a residential cooperative building.

Blended rate: Interest paid on a full loan amount, with two mortgages at different interest rates (and possibly different terms and amortizations).

Block grant: Federal funds allocated to a state for a group of related services, such as affordable housing, maternal and child health services, or drug abuse programs.

Boilerplates or Boilerplating: Standard language found in contracts, deeds or deeds of trust, and in covenants, conditions and restrictions.

Bond: A formal certificate that evidences a debt and outlines the terms. It is a formal promise to pay the lender (or bond issuer) a specified sum of money at a future date — with or without *collateral*. The promise must be in writing and signed and sealed by the maker (borrower). The balance owed is paid on a future date with a series of interest payments in the interval.

Book value: An accounting term used to show the value of a business as a whole or particular asset, such as real estate. The value is shown by accounting records that give the cost of the assets plus any improvement minus depreciation. Depending on the reason for valuation, book value may be marked down for a distress sale, but is not typically marked up to reflect an increase in value.

Boring test: Using soil samples obtained by boring deep holes in the ground to determine the strength of the subsoil for construction purposes.

Breach of contract: Failure to perform according to the terms of a contract. The party who has not breached the contract can rescind the agreement and sue for damages or for performance.

Breach of trust: Abuse of the responsibilities or authority as set forth in a trust agreement or contract.

Bridge financing or bridge loan: Short-term mortgage financing between the end of one loan or financing instrument and the beginning of another, normally for less than one year.

Broker: Someone who, for a fee, places loans with lending institutions but does not directly lend money or service loans. Also, a term used for real estate agents who bring sellers and prospective buyers together, or landlords and prospective tenants.

Builder's risk insurance: Insurance used to protect builders against fire and special risks while they have a building under construction. Normally required by construction lenders.

Building code: Local and state laws that set minimum construction standards.

Building line or setback: Distances from the ends and/or sides of a lot beyond which construction may not extend. The building line may be established by a filed plat of subdivision, by restrictive covenants in deeds or *leases*, by building *codes*, or by *zoning* ordinances.

Building permit: A written permit that must be obtained from a local jurisdiction by anyone performing new construction on a property.

Buyer's agent: A real estate agent who works for the buyer of a house, not the seller.

C

Cap: An upper limit on how much an interest rate or the monthly payment of an adjustable or floating rate mortgage can change at each adjustment or during the life of a mortgage. This limit may adjust annually. A lender would normally charge a fee to a borrower for a cap. See also collar and floor.

Capital improvement: A permanent improvement that increases the value of real property and extends the useful life of the property and is an expenditure that differs from a necessary repair expense. For example, painting a house is a maintenance repair expense, whereas the installation of vinyl or aluminum siding is a capital improvement.

Carryback financing: When the seller finances the sale of property to a buyer. See *seller financing*.

Cash flow: Cash receipts minus cash disbursements from a given operation or asset (such as a building) for a particular period of time. Similar to EBITDA (Earnings Before Interest expenses, Taxes, Depreciation and Amortization costs).

Cash reserve: A requirement by some lenders that buyers have sufficient cash remaining after closing to make future mortgage payments or property repairs. Lenders may require reserves to be funded into a separate account as a part of the closing process.

Certificate of Occupancy (CO): An official document by a governing authority stating that a structure complies with local *zoning* and building codes is ready for use and may be occupied legally. In some jurisdictions known as a Use and Occupancy Permit (U&O).

Certificate of Title: A certificate issued by a title company or a written opinion rendered by an attorney that the seller has *clear title* to the property that is being offered for sale. A certificate of title offers no protection against any hidden defects in the title that an examination of the records could not reveal. The issuer of a certificate of title is liable only for damages due to negligence. The protection offered a property owner under a certificate of title is not as secure as that offered in a title insurance policy.

Change order: A form used by a general contractor or other builder to specify changes from the approved construction documents used to construct a building. Should be approved by architect and project manager. Most lenders will want to approve change orders of a minimum size as part of their loan disbursement process.

Clear title: A title that is free of liens and legal questions as to ownership of the property.

Closing costs: Those expenses which buyers, sellers and lenders normally incur to complete a transaction in the transfer of ownership of real estate. These costs are in addition to price of the property and are items prepaid at or before the *closing day.* They include the appraisal, *credit report,* processing or application fee, *origination fee,* and transfer taxes. In commercial transactions, most closing costs incurred by the lender are paid for by the borrower.

Closing day: The day on which the formalities of a real estate sale are concluded and at which time title passes from seller to buyer. It is normally a meeting during which all the papers are signed (the loan is "closed") and loan funds are often transferred. May also be referred to as settlement.

Cloud (on Title): An outstanding claim or encumbrance which adversely affects the marketability of title.

Codes: Standards for constructing buildings that are established by city, state or municipal governments. In most areas these codes are modeled after national codes and establish minimum requirements for construction buildings. Points covered by codes include design, quality of construction, use and occupancy of the building on the *site*, safety and health. Some jurisdictions may require additional codes for school buildings.

Collar: The use of a *cap* and a *floor* in a floating rate loan. A collar prevents the interest rate from rising above the cap or below the floor. Usually paid for annually by the borrower.

Collateral or security: Assets that are pledged to secure a debt. If the borrower does not repay the loan as agreed, the lender can *foreclose* and take possession of the collateral. Typically, the property financed with a mortgage serves as the bank's collateral.

Commission: Money paid to a real estate agent or *broker* by the seller (or the buyer) as compensation for finding a buyer (or seller) and completing the sale. Usually the commission is set as a percentage of the sales price, and depending upon local real estate practice, may be negotiable.

Commitment letter: A formal, legally binding written offer by a lending institution stating the terms under which it agrees to loan money to a borrower.

Common Area Maintenance: (CAM) Charges paid by the tenant to landlord for the upkeep of areas designated for the use and benefit of all tenants. Common Areas in commercial buildings often include stairways, hallways, restrooms, courtyards, etc.

Comparables: Properties that are similar or comparable to the subject project. See *Direct Sales Comparison*.

Completion bonds: Bonds provided by contractors to lenders to guarantee completion of construction in accordance plans and *specifications*.

Condemnation: A determination by a governmental agency that a particular building is unsafe or unfit for use.

Contiguous: Properties that touch each other.

Contingency: An item in any contract stating that the contract is good only in certain cases. For example, a real estate sales contract may be binding only if the buyer obtains financing at a certain rate or if the seller replaces the shingles on the roof. Contingencies must be written in the contract to be enforceable. Also, a line item in a budget to cover unforeseen expenses.

Contract of purchase or contract of sale: See *Agreement of Sale.*

Contractor: In the construction industry, a contractor is one who contracts to erect buildings or portions of them. There are also (sub)contractors for each phase of construction: heating, electrical, plumbing, air conditioning, mechanical, and others.

Conversion clause or convertible loan: A provision in some floating or adjustable rate loans that allows you to change the adjustable rate to a fixed-rate loan at some point during the term. Usually conversion is allowed at the end of the first adjustment period. At the time of the conversion, the new fixed rate is generally set at one of the rates then prevailing for fixed rate mortgages. The conversion feature may be available at extra cost.

Co-signer: A person or corporation who signs loan documents, such as a mortgage note with another person. The co-signer is responsible for making payments, if the borrower does not.

Cost approach: A way to determine the market value of a property by evaluating the costs of creating a property exactly like the subject.

Co-tenancy: A form of co-ownership of property. Examples include: tenancy in common, tenancy-by-the-entirety, *joint tenancy.*

Counter-offer: Rejection of an offer by a seller or buyer with a simultaneous substitute offer.

Covenant: A clause in a mortgage that obligates or restricts the borrower and which, if violated, can result in a default leading to foreclosure. Covenants typically fall into two categories: reporting (such as submission dates for audited financial statements) and financial (maintaining a certain level of cash or *debt service coverage)*. Charter schools may also have covenants for enrollment levels or student achievement.

Credit report: A report of an individual's (or business's) credit history prepared by a credit bureau and used by a lender in determining an applicant's creditworthiness.

Cross-default clause: A provision in one mortgage making the mortgagor in default on all mortgages included in the group if a default occurs on just one mortgage. The cross-default clause allows a lender to foreclose if the borrower is in default on just one mortgage.

D

Daily interest: The amount of interest the borrower pays the lender calculated on a daily basis. It equals the annual interest rate divided by 360 or 365 and multiplied by the amount of the loan. Also called per diem interest.

Debt service coverage (or debt coverage ratio): Relationship between Net Operating Income (NOI) and annual debt service payments. NOI is the income from a property or of a business after *operating expenses* have been deducted but before deducting taxes and financing expenses (principal and interest). Annual debt service is the amount to be paid each year in principal and interest. Lenders usually require that this ratio be at or above a certain level for the life of a loan. The ratio can be described as calculating the amount available in operating income for each dollar of debt.

Debt service: Loan payment.

Declaration of trust: A document that acknowledges property is being held by a trustee for another individual or organization.

Decree: An order or judgment of a court.

Deed: A formal written legal instrument by which title to real property is transferred from one owner to another. The deed must contain an accurate description of the property being conveyed, be signed and witnessed according to the laws of the State where the property is located, and be delivered to the purchaser at *closing day*. There are two parties to a deed: the grantor and the grantee. Compare to a *Deed of Trust.*

Deed of Trust: Like a Promissory Note, a document in which real property is given as security for a debt. However, in a *deed of trust* there are three parties to the instrument: the borrower (or trustor), the trustee, and the lender (or beneficiary). In such a transaction, the borrower transfers the legal title for the property to the trustee who holds the property in trust as security for the payment of the debt to the lender or beneficiary. Many lenders will name officers of the financial institution as the trustee. If the borrower pays the debt as agreed, the deed of trust becomes void. If, however, the borrower defaults in the payment of the debt, the trustee may sell the property at a public sale, under the terms of the deed of trust. In most jurisdictions where the deed of trust is in force, the property may be sold without benefit of legal proceedings. Not the same as a *Deed.*

Default: Failure to make mortgage payments as agreed in the mortgage or deed of trust. It is the mortgagor's responsibility to remember the due date and send the loan payment prior to the due date, not after. Generally, thirty days after the due date if payment is not received, the mortgage is in default. In the event of default, the mortgage may give the lender the right to accelerate payments, take possession and receive rents, and start foreclosure. Defaults may also come about by the failure to observe other conditions *(covenants)* in the mortgage or deed of trust.

Defective title: Title that is not clear.

Deferred interest: Interest due but unpaid. Mortgages that permit negative amortization (such as a *graduated-payment mortgage* or a *floating rate* loan without a rate cap) will allow deferred interest.

Deferred maintenance: In an appraisal, a type of depreciation (decrease in value) caused by failure to properly maintain a property; sometimes called curable physical depreciation.

Deficiency: In the event of a foreclosure, there is a deficiency when the highest bid in a foreclosure sale is less than the outstanding balance plus foreclosure-related costs.

Delinquency: A loan in which a payment is overdue but not yet in default.

Demand note: A debt instrument that allows the lender to call the balance due at any time without prior notice.

Deposit: Cash paid to the seller when a formal sales contract is signed. See *earnest money*.

Depreciation: Decline in value of a property due to normal wear and tear, adverse changes in the neighborhood, or any other reason. In accounting, the coast of an asset is depreciated (allocated) over its useful life.

Direct sales comparison: Property value estimation in an appraisal using the sales prices of similar properties *(comparables)* and making value adjustments according to such things as square footage, room count, lot size, condition and amenities in order to obtain a realistic fair market value of the property being appraised. Same as *Market Approach*.

Discounting: The process of reducing the value of money to be received in the future to reflect the opportunity cost of waiting to receive the money.

Down payment: The amount of cash normally required by a lender to be paid by the borrower at closing. Down payment plus mortgage amount should equal the total project cost (sales price or construction costs). Typically 5% to 25% of the amount of the total cost. Sometimes call *equity*.

Due diligence: See *underwriting.*

Due-on-sale clause: A provision in a mortgage allowing the lender to demand repayment in full if the borrower sells the property which secures the mortgage.

E

Earnest money (good faith deposit): The *deposit* money given to the seller or seller's agent by the potential buyer upon the signing of the agreement of sale. This money indicates a seriousness on the part of the buyer. If the sale goes through, the earnest money is applied against the down payment. If the sale does not go through, the earnest money may be forfeited or lost unless the offer to purchase expressly provides that it is refundable. Most purchase contracts require that certain contingencies (such as the availability of financing and acceptance of property condition) be removed prior to the deposit being forfeited. Additional earnest money may be required for an extension of the sale agreement.

Easement or Easement rights: (1) A legal interest that one person/corporation has in land belonging to or in possession of another person/corporation entitling the owner of the easement to use the other's land. (2) A right of way giving persons other than the owner limited access to or over a property. An electric company obtaining a *right-of-way* across private property is a common example.

Economic life: The period of time over which real property is estimated to be profitably utilized.

Economic obsolescence: Loss in property value caused by conditions external to the property. A common example would be the typewriter, made obsolete by the personal computer.

Effective age: The apparent age of a property based on its appearance and wear; may be more than, the same as, or less than the actual or chronological age.

Egress: A means of exit from a parcel of land or from a building, usually used in reference to fire safety.

Eminent domain: Right of a government agency to take private property for a public purpose against the will of the owner. Fair compensation must be paid to the owner whose property is taken.

Encroachment: An obstruction, building, or part of a building that intrudes beyond a legal boundary onto neighboring private or public land, or a building extending beyond the building line.

Encumbrance: (1) A legal right or interest in land that affects a good or clear title, and diminishes the land's value. It can take numerous forms, such as *zoning* ordinances, easement rights, claims, mortgages, liens, charges, a pending legal action, unpaid taxes, or restrictive covenants. An encumbrance does not legally prevent transfer of the property to another. A title search is usually done to reveal the existence of such encumbrances. (2) Anything that imposes a legal burden on title to land such as liens for security purposes, easements, and restrictive covenants.

Equity financing: Use of buyer's funds to finance property.

Equity: The value of an owner's unencumbered interest in real estate. Equity is computed by subtracting borrowed funds and other liens from the property's fair market value. Equity increases in a property as a mortgage is paid off, and as the property appreciates in value. When the mortgage and all other debts against the property are paid in full, the owner has 100% equity in the property.

Erosion: The loss of land by wearing action of water or wind.

Escrow agent: A person or corporation employed by parties to a real estate transaction to receive documents and money and deliver them in accordance with their instructions. Often a title company.

Escrow agreement (escrow instructions): A contract between the parties to a real estate transaction to effect a settlement of the transaction in escrow.

Escrow: Usually documents and money deposited with a neutral third party (the *escrow agent*) to hold until the occurrence of a specified event such as the signing of loan documents. In real estate sales transactions, the escrow agent is given the Deed by the seller, *down payment* or *equity* by the buyer and mortgage funds by the buyer. The escrow agent releases loan funds and *down payment* to the seller at closing and delivers the title to the buyer.

Estoppel certificate: Document in which the borrower verifies the remaining balance and interest rate of a loan.

Estoppel: A doctrine of law that prevents a person from asserting facts or rights inconsistent with prior words or conduct.

F

Feasibility analysis: Study of the cash flow, marketability, profitability potential and overall desirability of a project.

Fee simple: Absolute ownership of and rights to use and control real property.

Finance: To supply money for a purchase. A lender can finance a building with a mortgage loan.

First mortgage: The mortgage that has first claim to the borrower's assets in the event of a default.

Fixed expenses: Expenses or payments that do not vary from month to month depending on production of a business, such as rent, or insurance. Compare to *variable expenses.*

Fixed lease: A lease in which the lessee pays a fixed amount for the duration of the lease. May also be referred to as a Gross Lease.

Fixed payment mortgage: Periodic payments of principal and interest on a mortgage which remain constant over the loan term.

Fixed-rate mortgage: A mortgage in which the interest rate does not change during the entire term of the loan.

Fixture: Anything attached to real property in such a manner that to remove it would damage the property. Must meet legal tests.

Floating rate: An interest rate on a loan which changes during the life of the loan, often monthly but can change quarterly or annually. These variable rates are based on an index rate and can be used for mortgages and other loans such as lines of credit. A floating rate is usually lower than a *fixed rate* of interest, but there is risk of very high rates in the future as index rates change.

Flood insurance: Insurance required for properties in federally designated flood areas.

Floor: The interest rate below which a floating rate cannot fall. Agreed upon by borrower and lender; normally requires annual fee.

Forbearance: The lender's postponement of foreclosure to give the borrower time to catch up on overdue payments.

Foreclose: The legal process of the lender taking a property when the borrower has defaulted on the loan. The lender typically then sells the property to recoup its loss on the unpaid loan, though some lenders may pursue alternative routes such as placing a new borrower in the property.

Front foot: A measure of property by which the distance is measured along the street, highway, stream, or other body of water.

Fully amortizing mortgage: A method of loan amortization in which equal periodic payments completely repay the loan during the loan term.

Functional obsolescence: Outdated design, fixtures, and other factors within the structure itself that detract from a building's value.

G

General partnership: Form of co-ownership wherein all partners have a voice in the management of a business and unlimited liability for its debts.

General warranty deed: A deed which conveys not only all the grantor's interests in and title to the property to the grantee, but also warrants that if the title is defective or has a *"cloud"* on it (such as mortgage claims, tax liens, title claims, judgments, or mechanic's liens against it) the grantee may hold the grantor liable.

Good faith deposit: See *earnest money.*

Graduated-payment mortgage (GPM): A type of stepped-payment loan in which the borrower's payments are initially lower than those on a comparable level-rate mortgage. The payments gradually increase over a predetermined period, and then are fixed at a level-pay schedule, which will be higher than the level-pay *amortization* of a level-pay mortgage originated at the same time. The difference between what the borrower actually pays and the amount required to fully *amortize* the mortgage is added to the unpaid *principal* balance. Normally for borrowers with future debt service capacity higher than current capacity.

Ground lease: A lease of the land only. Usually the land is leased for a relatively long period of time to a tenant that constructs a building on the property.

Gross area: The entire floor area of a building including hallways, closets and other non-usable space.

Grade: The level of the ground at the structure foundation.

Gross lease: A lease agreement in which the lessee pays a fixed rental amount for the duration of the lease and the lessor (property owner) pays the expenses associated with owning the property such as taxes, repairs, insurance and other costs. Compare to *Triple-Net-Lease*.

H

Hazard insurance: Insurance that compensates for a loss on a specific property due to damages caused by fire, vandalism, theft, storm damage and certain other natural disasters.

Highest and best use: The use of a property that will yield the greatest return on the property.

HVAC: Heating, Ventilation, and Air Conditioning.

I

Impound account: See *escrow.*

Improvement: (1) A structure situated on real property. (2) An activity that increases a property's value such as upgrading an HVAC system or modernizing the facility.

Index: A statistic that indicates some current economic or financial condition. Indexes are often used to set and adjust the interest rates on loans. Common indexes are Prime Rate, LIBOR and Treasury Bonds.

Industrial revenue bond: Bonds issued to raise funds for developing commercial buildings.

Ingress: A means of entry to a property.

Inspection: Physical examination of a property or building to confirm it meets the standards of a contract. When a property is constructed, it is normally inspected by an individual from a unit of local government to be sure all work is done properly. Construction lenders may also

require inspections prior to disbursing loan funds. Inspections normally include a determination of the soundness of the building and the condition of mechanical systems, such as plumbing and heating.

Installment debt: Debts or accounts that are paid off in monthly payments, or installments, such as credit-card accounts. Often refers to unsecured debt.

Interest: A charge that a borrower pays to a lender to borrow money.

Interest-only loan: A method of loan amortization in which interest is paid periodically over the term of the loan and the entire loan amount (principal) is paid at maturity.

Involuntary lien: A lien such as taxes or *mechanic's lien* imposed without consent of the property owner.

J

Joint tenancy: Form of co-ownership giving each tenant equal interest rights in the property, including the right of survivorship

Junior mortgage: Any mortgage on a property that is subordinate to a senior mortgage in priority. Also called subordinated mortgage.

L

Land contract (installment sale contract, installment contract, and contract for deed): A contract in which a seller of real estate promises to deliver a deed to the buyer at some time in the future after the buyer has, in an agreed upon number of payments of principal and interest, paid the purchase price in full. During the payment period, the buyer may use and occupy the land and real estate but no deed or title exchanges hands.

Late charge: The penalty a borrower must pay when a payment is made after the agreed upon due date.

Latent defect: A concealed defect not easily determined from an inspection of the property.

Lease: A contract between the property owner and another person to use or occupy the land for a set period of time.

Leasehold: Legal interest in real property acquired by a tenant (lessee) when he/she enters into a rental agreement with the owner of the property (landlord or *lessor*). Normally for a fixed period of time at a specified price, without transfer of ownership. A leasehold is a fixed asset and can be used to obtain financing.

Lessor: A person who rents or leases a property to another. Also referred to as a Landlord.

Letter of credit: Arrangement with a lending institution that agrees to substitute its credit for the borrower's credit. Used by borrower to secure debt and guarantees payment on that debt up to a specified amount. Borrower pays fees to the bank providing a letter of credit (LC).

Leverage: The amount of long-term debt that a company has in relation to its equity. Can be expressed as a ratio or a decimal. Greater leverage (higher debt to net worth or net assets) is indicated by a higher leverage number.

Liability insurance: Protection for a property owner, contractor, individual or corporation to protect against claims of negligence or inappropriate action resulting in bodily injury or property damage.

Lien: A claim on property as security for money owed. Such claims may include obligations not met such as debt, judgments, unpaid taxes, materials, or labor. May be against all property or specific property.

Liquidated damages: A specified sum of money agreed upon in a contract that one party will pay the other in the event of a breach of the contract.

Liquidity: A measure of how easily (and without cost) assets can be converted to cash. Lenders may measure the strength of a borrower's liquidity using something called the current ratio: current assets divided by current liabilities. The higher the number, the better the liquidity.

Loan agreement: Document which specifies amount, repayment structure and covenants. Compare to *Promissory Note* and *Deed of Trust.*

Loan balance: The amount of money remaining to be paid on an amortizing loan at a given time.

Loan commitment: See *commitment letter*.

Loan origination: The process whereby a lender initiates a loan with a borrower.

Loan Servicing: See *servicing*.

Loan To Value Ratio (LTV): A percentage that expresses the *loan balance* on a property compared to its appraised value (loan amount divided by the property value). In making a mortgage loan, a lender uses the LTV to ensure that a property is worth more than the loan amount. Most lenders will limit the loan amount based on this ratio.

M

Margin (also known as Spread): The amount a lender adds to the *index rate* to calculate the interest rate of a loan. May be described in percentages or *basis points*.

Market approach: The process during an appraisal of comparing the subject property to equivalent properties sold recently to arrive at an estimate of value for the property.

Market interest rate: Interest rate currently utilized by lenders and investors, often for similar transactions.

Market value: Price that a property should be purchased by a buyer in a competitive and open market under "fair sale" conditions (e.g., there is sufficient marketing time, no coercion, typical financing availability, arms-length negotiation and knowledgeable buyers and sellers). Sometimes called fair market value.

Marketable title: A title that is free and clear of objectionable liens, *clouds*, or other title defects. A title which enables an owner to sell a property freely to others and which others will accept without objection.

Maturity: The date a loan or mortgage must be paid in full.

Mechanic's lien: A lien that can be filed by laborers or material suppliers; it is against real property created for the purpose of securing payments for services performed or materials furnished in the construction or repair of buildings or making other improvements to land.

Metes and bounds: A method of land description using measurements, boundaries, and directions.

Mortgage commitment: See *commitment letter.*

N

Negative amortization: Occurs when monthly payments on a loan do not cover all of the interest cost accumulated. The interest cost not paid is added to the principal balance. This can result in a higher loan balance after time and higher monthly payments than the original loan amount. Most often happens with adjustable or floating interest rates with fixed monthly payments.

Nonconforming use: A use of land that violates *zoning* regulations or *codes* but can lawfully continue because the use began before the new *zoning* ordinance was enacted.

Note (also called Promissory Note): A legal document obligating a borrower to repay a loan at a stated interest rate and during a specified period of time. Compare to *mortgage.*

Notice of default: A formal written notice to a borrower that a *default* has occurred and that legal action may be taken. See *default*.

O

Offer: A purchase proposal to the seller of a property, detailing the amount the interested buyer would pay and other conditions that would have to be met before the proposed sale.

Open-end mortgage: A mortgage agreement that allows the mortgagor to borrow additional funds from the mortgage lender in the future, normally with a borrowing limit. This limit may be based on loan-to-value or may simply be the original loan amount (re-borrowing against principal previously paid).

Operating expenses: Costs necessary to run a business, such as salaries and utilizes.

Option: A contract given by the owner of a property, giving the right to buy or lease the property at a certain price within a specified period of time.

Origination fee: A fee paid to a lender for processing a loan application; it is often stated as a percentage of the mortgage amount, or *basis points,* and paid at *closing*.

P

Participation: A loan in which two or more lenders participate. The borrower may or may not be aware of this arrangement. Some participations are done after loan closing; others are active partnerships during the *underwriting* process.

Party wall: A wall erected on the line between two adjacent properties for the use of both parties.

Physical depreciation: Physical deterioration and concurrent loss in property value caused by wear, tear, and decay.

Plat: A map or chart of a lot, subdivision or community drawn by a surveyor showing boundary lines, buildings, improvements on the land, and easements.

Plot plan: A drawing showing the placement of a building on a site with precise locations, dimensions, and elevations.

Plottage: The increase in value of land by assembling smaller properties into one larger site.

Point or points (also basis points): A term used in relationship to interest rates. One point is equal to 1/100 of 1 percent, so that 100 points equal 1 percent. May be used

to describe the amount over an index rate that is charged to a borrower or to describe the amount of fees for a loan.

Prepayment: Payment of a mortgage loan, or part of it, before the due date. Mortgage agreements often restrict the right of prepayment either by limiting the amount that can be prepaid in any one year or charging a penalty for prepayment. The practice of charging money for an early payoff of the existing mortgage loan varies by state, type of lender, and type of loan.

Prepayment penalty: A fee charged to a borrower who pays off a loan before *maturity*. Must be included in loan documents.

Prime rate: The interest rate charged by lenders to their best customers. Often also refers to the prime rate as published in the Wall Street Journal (WSJ). The WSJ Prime Rate is determined via a poll of 30 US banks.

Principal: In finance, the basic element of the loan as distinguished from interest and any other charges. It is the amount upon which interest is calculated and paid.

Pro-forma statements: Financial analysis showing what is expected to occur; projections. Can describe balance sheets or income statements.

Promissory note (Note): A document on which a borrower promises to repay a loan. A legal document obligating a borrower to repay a loan at a stated interest rate and during a specified period of time. The agreement serves as proof of indebtedness and states the manner in which it shall be paid. The note states the actual amount of the debt that the mortgage secures. Compare to *Deed of Trust* and *loan agreement.*

Proposal letter (Term sheet): An indication of preliminary interest from a lending institution. Normally outlines general terms for *interest rate*, *amortization* and conditions precedent to closing.

Prorate: Allocation of costs and income between the buyer and seller of real estate at the time of the transaction closing, based upon the time of ownership of each.

Purchase Agreement: See *Agreement of Sale.*

R

Rate lock: A specified interest rate, available normally for a short period of time, committed to by a lender.

Raw land: Land with no improvements.

Recording: Filing a document with the appropriate public official in order to provide notice and affect the property title.

Refinancing: The process of paying off one loan with the proceeds from a new loan secured by the same property.

Rentable area: The actual square foot area for which the tenant will pay rent. Compare with *gross area* and *usable area*.

Reserve or reserve account: Funds set aside, usually paid by the borrower at closing or out of borrower's cash, in a segregated bank account. Funds may be used to make normal monthly loan payments or in case of a late payment.

Restrictive covenants: Private restrictions limiting the use of real property. Restrictive covenants are created by deed and may bind all subsequent purchasers of the land, or may bind only one seller and buyer. Restrictive covenants may limit the density of buildings per acre, regulate size, style, or price range of buildings to be erected, or prevent particular businesses from operating.

Right-of-way: The right to cross over or under another person's property for ingress, egress, utility lines, or sewers.

Riparian rights: Rights of an owner of property adjacent to a body of water allowing owner to use the water.

S

Sales agreement: See *agreement of sale.*

Sales comparison approach: See *Market approach.*

Second mortgage: A mortgage that has rights that are subordinate to the rights of the *first mortgage* holder.

Security: See *collateral.*

Security interest: The right of a creditor (a lender, for example) to take control of property offered as security.

Servicing: The act of billing, collecting payments, keeping records about covenant requirements, following up on deliquencies, and taking foreclosure actions. May also include loan analysis after closing.

Setback: A distance from the curb to the building. Often a minimum setback is specified by ordinance or code.

Site: Parcel of land developed to the point that it is ready for construction of a building or other improvements.

Specifications: A detailed description of the size, shape, materials, and other details of a construction project.

Spot zoning: Zoning that sets aside certain areas for purposes different from the general area requirements.

Spread (also known as Margin): The number of percentage points the lender adds to the *index rate* to calculate the interest rate of a loan. May be described in percentages or *basis points*.

Step up lease: A lease in which the rental amount paid by the lessee increases by a preset rate at predetermined intervals.

Subcontractor: Someone who performs services under contract with a general contractor. One example would be a plumber.

Sublease: A lease between from a tenant to another lessee. The new lessee is a sublessee or a subtenant.

Subordinate mortgage: Any mortgage on a property that is subordinate to a senior mortgage in priority. Also called *junior mortgage.*

Survey: A map or plat showing a property's boundaries, any places the property may have been improved or changed, rights of way, and other physical features. A survey is often required by the lender to provide assurance that a building is actually sited on the land according to its legal description.

T

Takeout: Financing from a lender for a permanent loan to pay off a construction loan. Generally includes specific conditions and is normally required to be in place by construction lenders before closing the loan or construction can begin.

Tax credit: Allowable reduction in the amount of income tax owed.

Term loan: The period of time during which payments (of *principal* and/or *interest)* must be made. Compare to *amortization.*

Terms: All conditions placed on a contract or loan, including the interest rate, any finance charges, and the length of the loan.

Title company: A company that examines real estate titles and issues title insurance.

Title insurance: Insurance that protects buyers and lenders against loss in the event of title disputes.

Title search or examination: A check of the public title records to make sure the buyer is purchasing real estate from the legal owner and there are no liens, overdue special assessments, or other claims or outstanding restrictive covenants filed in the record, which would adversely affect the marketability or value of title.

Title: Document establishing legal ownership of real estate. A clean title is one that shows no liens against it.

Tract: An area of land.

Triple-net lease: A lease in which the tenant pays, in addition to rent, taxes, insurance and maintenance. Compare to *gross lease*.

U

Underwriting: The work and research done by a lender to evaluate borrower creditworthiness and to ascertain risks involved prior to deciding whether or not to make a loan.

Unsecured credit: Any credit that is not secured by property (such as a house). A credit card is unsecured credit; a mortgage loan is secured.

Usable area: Rentable area minus certain common areas that are shared by all tenants (corridors, storage, bathrooms, etc.).

Usury: Interest on a loan at a rate higher than allowed by law.

V

Variable expenses: Costs, such as utilities, which vary with a building's occupancy rate or the production levels of a company.

Variance: In zoning, the right to deviate from the use of land prescribed by an existing zoning ordinance.

Z

Zoning: A county or city law stating the types of use to which properties can be put in specific areas.

Notes

Notes

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